**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**

**FORM 10-K**

**(Mark One)**

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2014**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number: 814-00939**

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**HMS Income Fund, Inc.**
*(Exact Name of Registrant as Specified in Its Charter)*

| | |
|---|---|
| **Maryland** | **45-3999996** |
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(I.R.S. Employer Identification No.)* |
| **2800 Post Oak Boulevard Suite 5000 Houston, Texas** | **77056-6118** |
| *(Address of Principal Executive Offices)* | *(Zip Code)* |

**(888) 220-6121**
*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act: None.**

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.001**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ | Non-accelerated filer ☑ (Do not check if a smaller reporting company) | Smaller reporting Company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes☐ No ☑

There is no established market for the Registrant's shares of common stock. The Registrant is currently conducting an ongoing public offering of its shares of common stock pursuant to a Registration Statement on Form N-2 (File No. 333-178548), which shares are currently being offered and sold at a price of $9.75 per share, with discounts available for certain categories of purchasers, or at a price necessary to ensure that shares are not sold at a price, after deduction of selling commissions and dealer manager fees, that is below net asset value per share.

As of February 28, 2015, there were 37,601,202 shares of the Registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement relating to the Registrant's 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Registrant's fiscal year, are incorporated by reference in Part III of this annual report on Form 10-K as indicated herein.

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## PART I

**Special Note Regarding Forward-Looking Statements**

*Statements in this Annual Report on Form 10-K (this "Form 10-K") that are not historical facts (including any statements concerning investment objectives, economic updates, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terminology.*

*The forward-looking statements in this Form 10-K are based on our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Any of the assumptions underlying forward-looking statements could be inaccurate. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, provide distributions to our stockholders and maintain the value of the investments in which we hold an interest, may be significantly hindered.*

*Our stockholders are cautioned not to place undue reliance on any forward-looking statement in this Form 10-K. All forward-looking statements are made as of the date of this Form 10-K, and the risk that actual results will differ materially from the expectations expressed in this Form 10-K may increase with the passage of time. In light of the significant uncertainties inherent in the forward-looking statements in this Form 10-K, the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Form 10-K will be achieved. We expressly disclaim any responsibility to update forward-looking statements, whether a result of new information, future events or otherwise, except as required by law. The forward-looking statements and projections contained in this Annual Report are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act. Please see "Item 1A. Risk Factors" for a discussion of some of the risks and uncertainties that could cause actual results to differ materially from those presented in certain forward-looking statements.*

## Item 1. *Business*

***Organization***

HMS Income Fund, Inc. (the "Company") was formed as a Maryland corporation on November 28, 2011 under the General Corporation Law of the State of Maryland. The Company's predecessor-in-interest was formed with private placement investments from a Hines affiliate and an unaffiliated investor, which purchased an initial portfolio of investments from Main Street Capital Corporation ("Main Street") and obtained a credit facility from Main Street. The Company is an externally managed, non-diversified closed-end investment company that has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). The Company has elected to be treated for U.S. federal income tax purposes as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code").

The Company's primary investment objective is to generate current income through debt and equity investments. A secondary objective of the Company is to generate long-term capital appreciation through such investments. On December 16, 2011, the Company filed a registration statement on Form N-2, as amended (the "Registration Statement") with the Securities and Exchange Commission (the "SEC"), which was declared effective on June 4, 2012, to register for sale up to 150,000,000 shares of common stock (the "Offering"). Prior to the effectiveness of the offering, the membership units of the predecessor-in-interest were merged into the Company (the "Merger Transaction"), and membership units were exchanged for shares of common stock.

As of December 31, 2014, the Company had raised approximately $295.2 million in the Offering, including proceeds from the distribution reinvestment plan of approximately $5.1 million.

The business of the Company is managed by HMS Adviser LP (the "Adviser"), a Texas limited partnership and affiliate of Hines Interests Limited Partnership ("Hines"), pursuant to an Investment Advisory and Administrative Services Agreement dated May 31, 2012, as amended (the "Advisory Agreement"). On May 31, 2012, the Company and the Adviser also retained Main Street, a New York Stock Exchange listed BDC, as the Company's investment sub-adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), pursuant to an Investment Sub-Advisory Agreement (the "Sub-Advisory Agreement") to identify, evaluate, negotiate and structure prospective investments, make investment and portfolio management recommendations for approval by the Adviser, monitor the Company's investment portfolio and provide certain ongoing administrative services to the Adviser. Main Street obtained a no-action letter from the SEC in November 2013 that permitted it to assign investment sub-adviser duties under the Sub-Advisory Agreement to MSC Adviser I, LLC ("MSC Adviser"), a wholly owned subsidiary of Main Street, and Main Street assigned such duties, and the Sub-Advisory Agreement was amended to reflect such change on December 31, 2013. The term "Sub-Adviser," as used herein, refers to Main Street until December 31, 2013 and MSC Adviser thereafter. The Adviser and Sub-Adviser are collectively referred to herein as the "Advisers." Upon the execution of the Sub-Advisory Agreement, Main Street became an affiliate of the Company. The Company has engaged Hines Securities, Inc. (the "Dealer Manager"), an affiliate of the Adviser, to serve as the dealer manager for the Offering. The Dealer Manager is responsible for marketing the Company's shares of common stock being offered pursuant to the Offering.

We refer to HMS Income Fund, Inc. as the "Company," and the use of "we," "our," "us" or similar pronouns in this annual report refers to HMS Income Fund, Inc. or the Company as required by the context in which such pronoun is used.

***Employees***

We do not have any direct employees, and our day-to-day investment operations are managed by our Adviser, which is also acting as our administrator. Our executive officers consist of a president and chief executive officer, a chief financial officer and secretary and a chief accounting officer and treasurer, all of whom are employees of Hines.

***Corporate Information***

Our executive offices are located at 2800 Post Oak Boulevard, Suite 5000, Houston, Texas 77056-6118, and our telephone number is 1-888-220-6121. We make available all of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports free of charge on our internet website at www.HinesSecurities.com as soon as reasonably practical after such material is electronically filed with or furnished to the SEC. These reports are also available on the SEC's internet website at *www.sec.gov.* The public may also read and copy paper filings that we have made with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. Information contained on our website is not incorporated by reference into this annual report on Form 10-K and stockholders should not consider information contained on our website to be part of this annual report on Form 10-K.

***Overview of our Business***

Our primary investment objective is to generate current income through debt and equity investments. A secondary objective is to generate long-term capital appreciation through such investments. We anticipate that during our offering period we will invest a majority of the net proceeds from the Offering in senior secured and second lien debt securities, issued by middle market companies in private placements and negotiated transactions, which are traded in private over-the-counter markets for institutional investors. We define middle market companies as those with annual revenues generally between $10 million and $3 billion. The private placement investments generally have floating interest rates at the London Interbank Offered Rate ("LIBOR") plus a premium and subject to LIBOR floors and an average term of five to seven years.

As of December 31, 2014, we had 77 debt investments in 75 private placement portfolio companies with an aggregate fair value of approximately $391.0 million and a total cost basis of approximately $402.9 million. All of our private placement portfolio investments were debt investments, and 80.9% were secured by first priority liens. Our private placement portfolio investments generally range in size from $500,000 to $10 million with an average investment size of $5.1 million, and have a weighted average annual effective yield of approximately 8.0%

In addition, we have debt and equity investments in lower middle market ("LMM") companies, which we define as companies with annual revenues generally between $10 million and $150 million. Our LMM debt investments generally have terms of three to seven years, with limited required amortization prior to maturity, and provide for monthly or quarterly payment of interest at fixed interest rates. We typically structure our LMM debt investments with the maximum seniority and collateral that we can reasonably obtain while seeking to achieve our total return target. In most cases, our LMM debt investment will be collateralized by a first priority lien on substantially all the assets of the portfolio company.

As of December 31, 2014, we had debt investments in eleven LMM portfolio companies with an aggregate fair value of approximately $23.8 million, and a total cost basis of approximately $23.8 million and equity investments in eight LMM portfolio companies with an aggregate fair value of approximately $9.8 million, and a total cost basis of approximately $9.8 million. As of the same date, our LMM debt investments had a weighted average annual effective yield of approximately 11.3%, and 95.9%

were secured by first priority liens on the assets of the LMM portfolio companies. The LMM equity investments consist of equity ownership interests in the LMM portfolio companies and warrants to acquire equity interests in the LMM portfolio companies.

The Company categorizes some of its investments in LMM companies and Middle Market companies as Private Loan portfolio investments, which are primarily debt securities issued by companies that are consistent in size with either the LMM companies or companies larger than LMM companies, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. These investments have not been originated by the Adviser or Sub-Adviser. The structure, terms and conditions for these Private Loan investments are typically consistent with the structure, terms and conditions for the investments made in the Company's LMM portfolio. Private Loan investments may include investments which have no established trading market or have established markets that are not active. As of December 31, 2014, we had eleven debt investments in nine Private Loan portfolio companies with an aggregate fair value of approximately $47.7 million and a cost basis of approximately $49.5 million. The Private Loan portfolio had a weighted average annual effective yield of approximately 9.7% and 74.9% of the investments were secured by first priority liens.

The Company's Other Portfolio investments consist of illiquid securities issued by private companies. As of December 31, 2014, we had one Other Portfolio investment with an aggregate fair value of this Other Portfolio Investment was approximately $1.6 million with a cost basis of approximately $1.6 million, which comprised 0.3% of our Investment Portfolio at fair value.

The value of our investment portfolio will fluctuate with changes in market pricing of our underlying investments. During the fourth quarter of 2014, our portfolio experienced a significant unrealized decline in value that was largely related to the impact of broad price declines in the high yield bond and leveraged loan markets and the effect of the declining oil prices on our investments in the oil and gas sector. While these macroeconomic events have impacted our investment valuations, management believes that these valuation declines are generally not indicative of a decline in credit quality. The declines in these valuations have resulted in declines in our net asset value. In accordance with our share pricing policy, our board of directors determined that a reduction in the public offering price per share was warranted following a decline in our estimated net asset value per share to an amount more than 5% below our then-current net offering price. Effective for the January 15, 2015, closing, our offering price per share was lowered from $10.00 to $9.75. As a result of the decrease in our public offering price per share, our maximum combined sales commission and dealer manager fee per share and the net proceeds per share will correspondingly decrease from $1.00 to $0.97 and $9.00 to $8.78, respectively.

As we increase our capital base during the Offering period, we will continue investing in, and ultimately intend to have a significant portion of our assets invested in, customized direct secured and unsecured loans to, and equity securities of, LMM companies. In most cases, companies that issue customized LMM securities to us will be privately held at the time we invest in them. Typically, our investment in LMM companies will require us to co-invest with Main Street and/or its affiliates. These types of co-investments required us to obtain an exemptive order from the SEC as discussed below. While the structure of our investments in customized LMM securities is likely to vary, we may invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, mezzanine debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yields. We will make other investments as allowed by the 1940 Act and consistent with our continued qualification as a RIC. For a discussion of the risks inherent in our portfolio investments, see "Item 1A. Risk Factors — *Risks Relating to our Business and Structure*."

Our investments may include other equity investments, such as warrants, options to buy a minority interest in a portfolio company, or contractual payment rights or rights to receive a proportional interest in the operating cash flow or net income of such company. When determined by our Advisers to be in our best interest, we may acquire a controlling interest in a portfolio company. Any warrants we receive with our debt securities may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We intend to structure such warrants to include provisions protecting our rights as a minority-interest or, if applicable, controlling-interest holder, as well as puts, or rights to sell such securities back to the company upon the occurrence of specified events. In addition, we may obtain demand or "piggyback" registration rights in connection with these equity interests.

We plan to hold many of our investments to maturity or repayment, but will sell our investments earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company, or if we determine a sale of one or more of our investments to be in our best interest.

The Adviser is registered as an investment adviser under the Advisers Act. Our Adviser oversees the management of our activities and is responsible for making investment decisions with respect to, and providing day-to-day management and administration of our investment portfolio. Our Adviser is wholly-owned by Hines. Our Adviser has engaged our Sub-Adviser to identify, evaluate, negotiate and structure prospective investments, make investment and portfolio management recommendations for approval by our Adviser, monitor our investment portfolio and provide certain ongoing administrative services to our Adviser.

As a BDC, we are subject to certain regulatory restrictions in making our investments, including limitations on our ability to co-invest with certain affiliates. However, on April 15, 2014, we received an order from the SEC, which we refer to as exemptive relief, that permits us, subject to certain conditions, to co-invest with Main Street in certain transactions originated by Main Street and/or our Advisers. The exemptive relief allows us, on one hand, and Main Street on the other hand, to co-invest in the same investment opportunities where such investment would otherwise be prohibited under Section 57(a)(4) of the 1940 Act.

Prior to and after obtaining exemptive relief, we have co-invested alongside our Sub-Adviser and/or its affiliates only in accordance with existing regulatory guidance. In addition to the co-investment program described in this Annual Report on Form 10-K and in the exemptive relief, we may continue to co-invest in syndicated deals and secondary loan market purchases where price is the only negotiated point.

We have employed, and in the future intend to employ, leverage as market conditions permit and at the discretion of our Adviser, but in no event will leverage employed exceed 50% of the value of our assets, as required by the 1940 Act.

***Business Strategy***

Our primary investment objective is to generate current income through debt and equity investments. A secondary objective is to generate long-term capital appreciation through such investments. We anticipate that during the Offering period we will invest largely in over-the-counter debt securities and customized debt and equity investments in LMM companies. We have adopted the following business strategy to achieve our investment objective:

- ***Utilize the experience and expertise of the principals of our Sub-Adviser and Adviser.*** Main Street is an internally managed BDC whose shares are listed on the New York Stock Exchange. Main Street's primary investment focus is providing customized debt and equity financing to LMM companies and debt capital to middle market companies that operate in diverse industry sectors. At December 31, 2014, Main Street had debt and equity investments with an aggregate fair value of $1.6 billion in 190 portfolio companies. Our Adviser's senior management team, through affiliates of Hines, has participated in the management of three publicly offered and non-traded real estate investment trusts and has extensive experience in evaluating and underwriting the credit of tenants, many of which are LMM companies, of its commercial real estate properties. The principals of our Adviser, namely Sherri W. Schugart, our chairperson, chief executive officer and president, and Ryan T. Sims, our chief financial officer and secretary, have access to a broad network of relationships with financial sponsors, commercial and investment banks, LMM companies and leaders within a number of industries that we believe will produce significant investment opportunities.

- ***Focus on middle market companies with stable cash flow.*** We believe that there are relatively few finance companies focused on transactions involving middle market companies, and this is one factor that allows us to negotiate favorable investment terms. Such favorable terms include higher debt yields and lower leverage levels, more significant covenant protection and greater equity participation than typical of transactions involving larger companies. We generally will invest in established companies with positive cash flow. We generally will not invest in startups with speculative business plans. We believe that established companies possess better risk-adjusted return profiles than newer companies that are building management or in early stages of building a revenue base. These middle market companies represent a significant portion of the U.S. economy and often require substantial capital investment to grow their businesses.

- ***Employ disciplined underwriting policies and rigorous portfolio management.*** We employ an extensive underwriting process that includes a review of the prospects, competitive position, financial performance and industry dynamics of each potential portfolio company. In addition, we perform substantial due diligence on potential investments and seek to invest with management teams and/or private equity sponsors who have proven capabilities in building value. Through our Advisers, we offer managerial assistance to our portfolio companies, giving them access to our investment experience, direct industry expertise and contacts, and allowing us to continually monitor their progress. As part of the monitoring process, our Advisers analyze monthly and quarterly financial statements versus the previous periods and year, review financial projections, meet with management, attend board meetings and review all compliance certificates and covenants.

- ***Focus on long-term credit performance and principal protection.*** We will structure our customized loan investments on a conservative basis with high cash yields, first and/or second lien security interests where possible, cash origination fees, and lower relative leverage levels. We will seek strong deal protections for our customized debt investments, including default penalties, information rights, board observation rights, and affirmative, negative and financial covenants, such as lien protection and prohibitions against change of control. We believe these protections will reduce our risk of capital loss.

- ***Diversification.*** We seek to diversify our portfolio broadly among companies in a multitude of different industries and end markets, thereby reducing the concentration of credit risk in any one company or sector of the economy. We cannot guarantee that we will be successful in this effort.

## INVESTMENT PROCESS

***Deal Origination***

Over the years, we believe the management team of Main Street, who controls our Sub-Adviser, and the affiliates of Hines have developed and maintained a strong reputation as principal investors and an extensive network of relationships. As part of operating a New York Stock Exchange-listed BDC, Main Street sources investments of the type we make on a day-to-day basis. Main Street has business development professionals dedicated to sourcing investments through relationships with numerous loan syndication and trading desks, investment banks, private equity sponsors, business brokers, merger and acquisition advisors, finance companies, commercial banks, law firms and accountants. Moreover, through its over 50 years of experience in leasing commercial real estate on a global basis, Hines has developed relationships with a large number of middle market companies that are a potential source of middle market investment opportunities. We expect our Adviser will continue to have continuous access to Main Street's professional team due to the Sub-Adviser's engagement as our sub-adviser.

We believe that our industry relationships are a significant source for new investment opportunities. We generally source our investments in ways other than going to auctions, including capitalizing on long-standing relationships with companies and financial sponsors to participate in proprietary investment opportunities.

From time to time, we may receive referrals for new prospective investments from our portfolio companies as well as other participants in the capital markets. We may pay referral fees to those who refer transactions to us that we consummate.

***Investment Selection***

Our investment philosophy and portfolio construction involves:

- An assessment of the overall macroeconomic environment and financial markets;
- Company-specific research and analysis; and
- An emphasis on capital preservation, low volatility and minimization of downside risk.

The foundation of our investment philosophy is intensive credit investment analysis based on fundamental value-oriented research and diversification. We follow a rigorous selection process based on:

- A comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer's business;
- An evaluation of the management team;
- An analysis of business strategy and long-term industry trends; and
- An in-depth examination of capital structure, financial results and financial projections.

We seek to identify those issuers exhibiting superior fundamental risk-return profiles with a particular focus on investments with the following characteristics:

- *Established companies with a history of positive and stable operating cash flows.* We seek to invest in established companies with sound historical financial performance. We typically focus on companies with a history of profitability. We generally do not invest in start-up companies or companies with speculative business plans.
- *Ability to exert meaningful influence.* We target investment opportunities in which we will be the lead investor where we can add value through active participation.
- *Experienced management team.* We generally require that our portfolio companies have an experienced management team. We also seek to invest in companies that have a strong equity incentive program in place that properly aligns the interests of management with a company's investors.
- *Strong franchises and sustainable competitive advantages.* We seek to invest in companies with proven products and/or services and strong regional or national operations.
- *Industries with positive long-term dynamics.* We seek to invest in companies in industries with positive long-term dynamics.
- *Companies with exit alternative/refinancing.* We generally exit from most debt investments through the portfolio company's repayment of the debt to us or successful refinancing with another debt provider. We may exit our

equity positions by selling the equity back to the portfolio company or to another party if the company undergoes a transaction such as a merger or an acquisition. We typically assist our portfolio companies in developing and planning refinancing or exit opportunities, including any sale or merger of our portfolio companies. We may also assist in the structure, timing, execution and transition of the exit strategy or refinancing.

Except as restricted by the 1940 Act or the Code, we deem all of our investment policies to be non-fundamental, which means that they may be changed by our board of directors without stockholder approval.

***Intensive Credit Analysis / Due Diligence***

The process through which our Advisers make an investment decision with respect to a customized financing transaction in the lower middle market involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for a transaction determines that an investment opportunity should be pursued, the Advisers will engage in an intensive due diligence process. Though each transaction will involve a somewhat different approach, the regular due diligence steps generally to be undertaken include:

- Meeting with senior management to understand the business more fully and evaluate the ability of the senior management team;
- Checking management backgrounds and references;
- Performing a detailed review of financial performance and earnings;
- Visiting headquarters and other company locations and meeting with management;
- Contacting customers and vendors to assess both business prospects and industry wide practices;
- Conducting a competitive analysis, and comparing the issuer to its main competitors;
- Researching industry and financial publications to understand industry wide growth trends;
- Assessing asset value and the ability of physical infrastructure and information systems to handle anticipated growth; and
- Investigating legal risks and financial and accounting systems.

For the middle market investments, our Advisers conduct and continuously maintain a comprehensive credit analysis, the results of which are available for the transaction team to review. Our due diligence process with respect to over-the-counter debt securities is necessarily less intensive than that followed for customized financings. The issuers in these private debt placements tend to be rated and have placement agents who accumulate a certain level of due diligence information prior to placing the securities. Moreover, these private placements generally have much shorter timetables for making investment decisions.

***Portfolio Monitoring***

Our Advisers employ several methods of evaluating and monitoring the performance and value of our investments, which may include, but are not limited to, the following:

- Assessment of success in adhering to the portfolio company’s business plan and compliance with covenants;
- Regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- Attendance at, and participation in, board meetings of the portfolio company; and
- Review of monthly and quarterly financial statements and financial projections for the portfolio company.

As a BDC, we are required to offer and provide managerial assistance to our portfolio companies. This assistance could involve monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Our Advisers or any third-party administrator will make available such managerial assistance, on our behalf, to our portfolio companies, whether or not they request this assistance. Our Advisers’ business experience makes them qualified to provide such managerial assistance. We may receive fees for these services and will reimburse our Advisers, or any third-party administrator, for their allocated costs in providing such assistance, subject to review and approval by our board of directors.

***Exit Strategies/Refinancing***

While we generally exit most investments through the refinancing or repayment of our debt, our Advisers typically assist our LMM portfolio companies in developing and planning exit opportunities, including any sale or merger of our portfolio companies. The Advisers may also assist in the structure, timing, execution and transition of the exit strategy. The refinancing or repayment of private placement debt investments typically does not require our assistance due to the additional resources available to these larger, middle market companies.

***Determination of Net Asset Value***

As a BDC, we are required to determine the net asset value of our investment portfolio on a quarterly basis. Securities that are publicly traded are valued at the midpoint between the bid-ask spread on the valuation date. Securities that are not publicly traded are valued at fair value as determined in good faith by our board of directors. In connection with that determination, valuations are prepared using relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, the most recent portfolio company financial statements and forecasts. Our board of directors obtains extensive input from our Advisers, as well as valuation analyses from third party valuation services, on which our board of directors relies in determining the fair value of securities that have no trading market.

We account for our portfolio investments at fair value under the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC") 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 requires us to assume that the portfolio investment is to be sold in the principal market to independent market participants. Market participants are defined as buyers and sellers in the principal market that are independent, knowledgeable, and willing and able to transact. For those investments in which there is an absence of a principal market, we incorporate the income approach to estimate the fair value of our portfolio debt investments primarily through the use of a yield to maturity model.

Additionally, we invest in illiquid securities issued by private LMM companies. Our investments in LMM portfolio companies may be subject to restrictions on resale and will generally have no established trading market or established markets that are inactive. We determine in good faith the fair value of our portfolio investments pursuant to a valuation policy adopted by our board of directors in accordance with the requirements of the 1940 Act and ASC 820. We review external events, including private mergers, sales and acquisitions involving comparable companies, and include these events in the valuation process. Our valuation policy and process are intended to provide a consistent basis for determining the fair value of our investment portfolio.

For LMM investments, market quotations are generally not readily available. We use the income approach to value our debt investments. We determine fair value primarily using a yield to maturity approach that analyzes the discounted cash flows of interest and principal for the debt security, as set forth in the associated loan agreements, as well as the financial position and credit risk of each of these portfolio investments. Our estimate of the expected repayment date of a debt security is generally the legal repayment date of the instrument, as we generally intend to hold our loans to repayment. The yield to maturity analysis considers changes in leverage levels, credit quality, portfolio company performance and other factors. We use the value determined by the yield to maturity analysis as the fair value for that security. However, it is our position that assuming a borrower is outperforming underwriting expectations and because these respective investments do not contain prepayment penalties, the borrower would most likely prepay or refinance the borrowing at a lower rate. Therefore, we do not believe that a market participant would pay a premium for the investment. Also, because of our general intent to hold loans to repayment, we generally do not believe that the fair value of the investment should be adjusted in excess of the face amount. However, adjustments to investment values will be made for declines in fair value due to market changes or credit deterioration.

We currently invest a substantial portion of our available capital in private placement investments that are generally larger in size than LMM investments. Private placement investments generally have established markets that are not active; however, market quotations are generally readily available. For these private placement investments, we primarily use observable inputs, such as third party quotes or other independent pricing of identical or similar assets in non-active markets, to determine the fair value of those investments.

Due to the inherent uncertainty in the valuation process, our estimate of fair value may differ materially from the values that would have been used had a ready market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. We estimate the fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation in the consolidated Statements of Operations.

***Determinations in Connection With Offerings***

Since our initial closing through January 15, 2015, we sold our shares of common stock on a continuous basis at an offering price of $10.00 per share. To the extent that our net asset value per share increases, we will sell our shares of common stock at a price necessary to ensure that shares of common stock are not sold at a price per share, after deduction of selling commissions and dealer manager fees, that is below our net asset value per share. In the event of a material decline which we deem to be non-temporary in our net asset value per share that results in a decrease 5% or more of our net asset value per share below our then-current net offering price, and subject to certain conditions, we will reduce our offering price . Consistent with this policy, effective with the weekly stock closing on January 15, 2015, our offering price per share was lowered to $9.75.

***Competition***

Our primary competition in providing financing to middle market, including LMM, companies includes other BDCs, specialty finance companies, investment companies, opportunity funds, private equity funds and institutional investors, public and private buyout and other private equity funds, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical, and marketing resources than we do. For example, some competitors may have a lower cost of funds as well as access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. We use the industry information of our investment professionals, to which we have access, to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that our relationships enable us to discover, and compete effectively for, financing opportunities with attractive middle market, including LMM, companies in the industries in which we seek to invest. See "Item IA. Risk Factors — Risks Relating to Our Business and Structure — *We may face increasing competition for investment opportunities, which could delay deployment of our capital, reduce returns and result in losses."*

**REGULATION**

***Regulation as a Business Development Company***

We have elected to be regulated as a BDC under the 1940 Act. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters. The 1940 Act requires that a majority of our directors be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by the lesser of (i) 67% or more of the voting securities present at a meeting if the holders of more than 50% of our outstanding voting securities are present or represented by proxy or (ii) 50% of our voting securities.

We are generally not permitted to issue and sell our common stock at a price below net asset value per share. See "Item 1A. Risk Factors —*Risks Relating to Business Development Companies — Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth.*" We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value of our common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In addition, we may generally issue new shares of our common stock at a price below net asset value in rights offerings to existing stockholders, in payment of dividends and in certain other limited circumstances.

***Qualifying Assets***

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are any of the following:

1. Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:
    a. is organized under the laws of, and has its principal place of business in, the U.S.;
    b. is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
    c. satisfies any of the following:
        i. does not have any class of securities that is traded on a national securities exchange;
        ii. has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than $250 million;

iii. is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company; or
iv. is a small and solvent company having total assets of not more than $4.0 million and capital and surplus of not less than $2.0 million

2. Securities of any eligible portfolio company that we control.
3. Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
4. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
5. Securities received in exchange for or distributed on or with respect to securities described in(1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
6. Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must have been organized and have its principal place of business in the U.S. and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

***Managerial Assistance to Portfolio Companies***

In order to count portfolio securities as qualifying assets for the purpose of the 70% test, we must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where we purchase such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

***Temporary Investments***

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets.

***Senior Securities***

We are permitted, under specified conditions, to issue multiple classes of debt and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Item 1A. Risk Factors — *Risks Relating to Business Development Companies — Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise additional capital or borrow for investment purposes, which may have a negative effect on our growth*."

***Code of Ethics***

We, our Advisers and our Dealer Manager have each adopted a code of ethics that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. We have attached these codes of ethics as exhibits to the registration statement pertaining to the Offering of our shares of common stock. You may also read and copy, after paying a duplication fee, the codes of ethics at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549, or by making an electronic request to the following email address: publicinfo@sec.gov. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 942-8090. In addition, the code of ethics is available on the EDGAR Database on the SEC's Internet site at http://www.sec.gov.

***Compliance Policies and Procedures***

We and our Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws, and our board of directors is required to review these compliance policies and procedures annually to assess their adequacy and the effectiveness of their implementation. We have designated Susan Dudley as our Chief Compliance Officer.

***Proxy Voting Policies and Procedures***

It is unlikely that our portfolio investments will solicit proxies for shareholder votes on a regular basis. To the extent we receive proxy statements, however, we have delegated our proxy voting responsibility to our Adviser. The proxy voting policies and procedures of our Adviser are set forth below. The guidelines are reviewed periodically by our Adviser and our independent directors, and, accordingly, are subject to change.

**Introduction**

As an investment adviser registered under the Advisers Act, our Adviser has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its clients.

These policies and procedures for voting proxies for the investment advisory clients of our Adviser are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

**Proxy Policies**

Our Adviser will vote proxies relating to our securities in the best interest of our stockholders. It will review on a case-by-case basis each proposal submitted for a stockholder vote to determine its impact on our portfolio securities . Although our Adviser will generally vote against proposals that may have a negative impact on our portfolio securities, it may vote for such a proposal if there exist compelling long-term reasons to do so.

The proxy voting decisions of our Adviser are made by the senior officers who are responsible for monitoring each of its clients' investments. To ensure that its vote is not the product of a conflict of interest, it will require that: (a) anyone involved in the decision-making process disclose to its chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision making process or vote administration are prohibited from revealing how our Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties.

**Proxy Voting Records**

You may obtain information, without charge, regarding how we voted proxies with respect to our portfolio securities by making a written request for proxy voting information to: Chief Financial Officer, 2800 Post Oak Boulevard, Suite 5000, Houston, Texas 77056-6118, or by calling the Company at (888) 220-6121. Also, the SEC maintains a website at www.sec.gov that contains such information.

***Other***

As a BDC, we are subject to periodic examinations by the SEC for compliance with the 1940 Act. We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from misconduct, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

***Securities Exchange Act and Sarbanes-Oxley Act Compliance***

We are subject to the reporting and disclosure requirements of the Exchange Act of 1934, as amended (the "Exchange Act"), including the filing of quarterly, annual and current reports, proxy statements and other required items. In addition, we are subject to the Sarbanes-Oxley Act of 2002, which imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements will affect us. For example:

- pursuant to Rule 13a-14 of the Exchange Act, our chief executive officer and chief financial officer are required to certify the accuracy of the financial statements contained in our periodic reports;

- pursuant to Item 307 of Regulation S-K, our periodic reports are required to disclose our conclusions about the effectiveness of our disclosure controls and procedures; and
- pursuant to Rule 13a-15 of the Exchange Act, our management is required to prepare a report regarding its assessment of our internal control over financial reporting.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and have taken actions necessary to ensure that we are in compliance therewith.

***Investment Adviser Regulations***

Our Advisers are subject to regulation under the Advisers Act. The Advisers Act establishes, among other things, recordkeeping and reporting requirements, disclosure requirements, limitations on transactions between the adviser's account and an advisory client's account, limitations on transactions between the accounts of advisory clients, and general anti-fraud prohibitions. We and our Advisers may also be examined by the SEC from time to time for compliance with the Advisers Act.

***Taxation as a Regulated Investment Company***

We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level federal income taxes on any income that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to obtain RIC tax treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our net investment income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the "Annual Distribution Requirement").

For any taxable year in which we qualify as a RIC and satisfy the Annual Distribution Requirement, we will not be subject to federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending December 31 in that calendar year and (3) any ordinary income and net capital gain recognized, but not distributed, in the preceding year (the "Excise Tax Avoidance Requirement"). Distributions declared and paid by us in a year will generally differ from taxable income for that year as such distributions may include the distribution of current year taxable income, exclude amounts carried over into the following year, and include the distribution of prior year taxable income carried over into and distributed in the current year.

In order to qualify as a RIC for federal income tax purposes, we must, among other things:

- continue to qualify as a BDC under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, net income from certain "qualified publicly traded partnerships," or other income derived with respect to our business of investing in such stock or securities (the "90% Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  a. at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
  b. no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships" (collectively, the "Diversification Tests").

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as payment-in-kind, or PIK, interest and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders in certain circumstances while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

## Item 1A. *Risk Factors*

*Investing in our common stock involves a number of significant risks. In addition to the other information contained in this Annual Report on Form 10-K, you should consider carefully the following information before making an investment in our common stock. The risks set out below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value could decline, and you may lose all or part of your investment.*

### ***Risks Relating to Our Business and Structure***

***Economic activity in the United States was impacted by the global financial crisis of 2008 and has yet to fully recover.***

Beginning in the third quarter of 2007, global credit and other financial markets suffered substantial stress, volatility, illiquidity and disruption. These forces reached extraordinary levels in late 2008, resulting in the bankruptcy of, the acquisition of, or government intervention in the affairs of several major domestic and international financial institutions. In particular, the financial services sector was negatively impacted by significant write-offs as the value of the assets held by financial firms declined, impairing their capital positions and abilities to lend and invest. We believe that such value declines were exacerbated by widespread forced liquidations as leveraged holders of financial assets, faced with declining prices, were compelled to sell to meet margin requirements and maintain compliance with applicable capital standards. Such forced liquidations also impaired or eliminated many investors and investment vehicles, leading to a decline in the supply of capital for investment and depressed pricing levels for many assets. These events significantly diminished overall confidence in the debt and equity markets, engendered unprecedented declines in the values of certain assets, and caused extreme economic uncertainty. Economic activity remains subdued though employment rates have improved. Despite this, corporate interest rate risk premiums, otherwise known as credit spreads, have declined significantly. However, deterioration of U.S. or global economic and market conditions in the future could negatively impact credit spreads as well as our ability to obtain financing, particularly in the debt markets. Future financial market uncertainty could have a material adverse impact on the value of our investments.

***Unfavorable economic conditions or other factors may affect our ability to borrow for investment purposes, and may therefore adversely affect our ability to achieve our investment objective.***

Unfavorable economic conditions or other factors could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. An inability to successfully access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings, if any.

***There is a risk that investors in our equity securities may not receive distributions or that our distributions may not grow over time.***

Any distributions we make to our stockholders will be paid out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions.

***The amount of our distributions to our stockholders is uncertain. Portions of the distributions that we pay may represent a return of capital to you for U.S. federal income tax purposes which will lower your tax basis in your shares and reduce the amount of funds we have for investment in targeted assets. We may not be able to pay you distributions, and our distributions may not grow over time.***

Any distributions we make to our stockholders will be paid out of assets legally available for distribution. We may fund our cash distributions from any sources of funds available, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to us on account of preferred and common equity investments in portfolio companies, fee waivers from our Advisers and expense support payments from our Adviser. We cannot assure you that we will achieve investment results that will allow us to make a targeted level of distributions or year-to-year increases in distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described in this prospectus. In addition, the inability to satisfy the asset coverage test applicable to us as a BDC can limit our ability to pay distributions. All distributions will be paid at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future.

To the extent that we pay any distributions from the proceeds of the offering or from borrowings in anticipation of future cash flow, this may constitute a return of your capital and will lower your tax basis in your shares. Distributions from the proceeds of the offering or from borrowings also could reduce the amount of capital we ultimately invest in debt and equity interests of portfolio companies. We have not established any limit on the extent to which we may use borrowings, if any, or proceeds from the offering to fund distributions (which may reduce the amount of capital we ultimately invest in assets). There can be no assurance that we will be able to sustain distributions at any particular level or at all. Our Adviser has agreed to waive management and incentive fees for a period from June 4, 2012 to December 31, 2014, to the extent required to avoid distributions that are estimated to represent a return of capital for U.S. federal income tax purposes during such period. Our Sub-Adviser stopped waiving its management and incentive fees as of January 1, 2014.

***Price declines in the large corporate leveraged loan market may adversely affect the fair value of over-the-counter debt securities we hold, reducing our net asset value through increased net unrealized depreciation.***

Prior to the onset of the financial crisis, collateralized loan obligations, a type of leveraged investment vehicle holding corporate loans, hedge funds and other highly leveraged investment vehicles, comprised the majority of the market for purchasing and holding senior secured and second lien secured loans. As the secondary market pricing of the loans underlying these portfolios deteriorated during the fourth quarter of 2008, it is our understanding that many investors, as a result of their generally high degrees of leverage, were forced to raise cash by selling their interests in performing loans in order to satisfy margin requirements or the equivalent of margin requirements imposed by their lenders. This resulted in a forced deleveraging cycle of price declines, compulsory sales, and further price declines, with widespread redemption requests and other constraints resulting from the credit crisis generating further selling pressure. While prices have appreciated measurably since the end of 2008, conditions in the large corporate leveraged loan market may deteriorate again, which may cause pricing levels to decline. As a result, we may suffer unrealized depreciation and could incur realized losses in connection with the sale of over-the-counter debt securities we hold, which could have a material adverse impact on our business, financial condition and results of operations.

***Our ability to achieve our investment objective depends on our Adviser's and our Sub-Adviser's ability to manage and support our investment process. If our Adviser or our Sub-Adviser were to lose any members of their respective senior management teams, our ability to achieve our investment objective could be significantly harmed.***

We are externally managed and depend upon the investment expertise, diligence, skill and network of business contacts of our Advisers. We also depend, to a significant extent, on our Advisers' access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. Our Advisers will evaluate, negotiate, structure, close, monitor and service our investments. Our success depends to a significant extent on the continued service and coordination of our Advisers, including their key professionals. The departure of a significant number of our Adviser's or Sub-Adviser's key professionals could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that our Advisers will remain our investment adviser and sub-adviser or that we will continue to have access to their investment professionals or their information and deal flow.

***Because our business model depends to a significant extent upon relationships with investment banks, business brokers, loan syndication and trading desks, and commercial banks, the inability of our Advisers to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.***

We expect that our Advisers will depend on their relationships with investment banks, business brokers, loan syndication and trading desks, commercial banks and other historical sources of deal flow, and we rely to a significant extent upon these relationships to provide us with potential investment opportunities. If our Advisers fail to maintain their existing relationships or develop new relationships with other sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom our Advisers' professionals have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us.

***We may face increasing competition for investment opportunities, which could delay deployment of our capital, reduce returns and result in losses.***

We compete for investments with other BDCs and investment funds (including private equity funds and mezzanine funds), as well as traditional financial services companies such as commercial banks and other sources of funding. Moreover, alternative investment vehicles, such as hedge funds, also make investments in middle market private U.S. companies. As a result, competition for investment opportunities in private U.S. companies may intensify. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we have. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we are able to do. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we are forced to match our competitors' pricing, terms and structure, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. A significant part of our competitive advantage stems from the fact that the market for investments in private U.S. companies is under served by traditional commercial banks and other financial sources. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms. Furthermore, many of our competitors may have greater experience operating under, or are not subject to, the regulatory restrictions under the 1940 Act that are imposed on us as a BDC.

***A significant portion of our investment portfolio is and will continue to be recorded at fair value as determined in good faith by our board of directors and, as a result, there is and will be uncertainty as to the ultimate market value of our portfolio investments.***

Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value, as determined in good faith by our board of directors. However, the majority of our investments are not publicly traded or actively traded on a secondary market and, instead, are traded on a privately negotiated over-the-counter secondary market for institutional investors. As a result, we value these securities at fair value as determined in good faith by our board of directors.

The determination of fair value, and thus the amount of unrealized gains and losses we may incur in any year, is subjective, and our Advisers may have a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our board of directors based on input from our Advisers, any third-party independent valuation firm retained by our board of directors, and our audit committee. Certain factors that may be considered in determining the fair value of our investments include dealer quotes for securities traded on the secondary market for institutional investors, the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to comparable publicly-traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Due to this uncertainty, our fair value determinations may cause our net asset value on a given date to materially understate or overstate the value that we may ultimately realize upon the sale of one or more of our investments.

***Our board of directors may change our operating policies and investment strategies without prior notice or stockholder approval, the effects of which may be adverse.***

Our board of directors has the authority to modify or waive our current operating policies, investment criteria and investment strategies without prior notice and without stockholder approval if it determines that doing so will be in the best interests of stockholders. We cannot predict the effect any changes to our current operating policies, investment criteria and investment strategies would have on our business, net asset value, operating results and value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you distributions and cause you to lose all or part of your investment. Moreover, we have significant flexibility in investing the net proceeds of the offering and may use the net proceeds from the offering in ways with which investors may not agree or for purposes other than those contemplated at the time of the offering.

***If we internalize our management functions, your interest in us could be diluted and we could incur other significant costs and face other significant risks associated with being self-managed.***

Our board of directors may decide in the future to internalize our management functions. If we do so, we may elect to negotiate to acquire our Advisers' assets and personnel. At this time, we cannot anticipate the form or amount of consideration or other terms relating to any such internalization transaction. Such consideration could take many forms, including cash payments, promissory notes and shares of our common stock. The payment of such consideration could result in dilution of your interests as a stockholder and could reduce the earnings per share attributable to your investment.

In addition, while we would no longer bear the costs of the various fees and expenses we expect to pay to our Advisers under the Investment Advisory Agreement and Sub-Advisory Agreement, we would incur the compensation and benefits costs of our officers and other employees and consultants that are now being paid by our Advisers or their affiliates. We cannot reasonably estimate the amount of fees we would save or the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to our Advisers, our earnings per share would be lower as a result of the internalization than they otherwise would have been, potentially decreasing the amount of funds available to distribute to our stockholders and the value of our shares of common stock. As currently organized, we do not have any employees. If we elect to internalize our operations, we would employ personnel and would be subject to potential liabilities commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances. In recent years, management internalization transactions have been the subject of stockholder litigation. Stockholder litigation can be costly and time-consuming, and there can be no assurance that any litigation expenses we might incur would not be significant or that the outcome of litigation would be favorable to us. Any amounts we are required to expend defending any such litigation will reduce our net investment income.

If we internalize our management functions, we could have difficulty integrating these functions as a stand-alone entity. In addition, we could have difficulty retaining such personnel employed by us. Currently, individuals employed by our Adviser, our Sub-Adviser and/or their respective affiliates perform management and general and administrative functions, including accounting and financial reporting, for multiple entities. These personnel have a great deal of know-how and experience. We may fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage an internalization transaction effectively could result in our incurring excess costs and/or suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management's attention could be diverted from most effectively managing our investments.

***Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.***

We and our portfolio companies are subject to regulation at the local, state and federal level. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect.

Additionally, any changes to the laws and regulations governing our operations relating to permitted investments may cause us to alter our investment strategy to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth in this prospectus and may result in our investment focus shifting from the areas of expertise of our Advisers to other types of investments in which our Advisers may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

***Efforts to comply with the Sarbanes-Oxley Act involve significant expenditures, and non-compliance with the Sarbanes-Oxley Act may adversely affect us.***

We are subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the related rules and regulations promulgated by the SEC. Under current SEC rules, beginning with our fiscal year ending December 31, 2013, we were required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and rules and regulations of the SEC thereunder. We are required to review on an annual basis our internal control over financial reporting, and on a quarterly and annual basis to evaluate and disclose changes in our internal control over financial reporting. As a result, we may incur significant additional expenses, which may negatively impact our financial performance and our ability to pay distributions. This process also will result in a diversion of management's time and attention. If in the future, we are unable to maintain compliance with the Sarbanes-Oxley Act and related rules, we may be adversely affected.

***The impact of recent financial reform legislation on us is uncertain.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was enacted in 2010, instituted a wide range of reforms that will have an impact on all financial institutions. Many of the requirements called for in the Dodd-Frank Act will be implemented over time, most of which will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full impact such requirements will have on our business, results of operations or financial condition is unclear. The changes resulting from the Dodd-Frank Act may require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with any such laws, regulations or principles, or changes thereto, may negatively impact our business, results of operations and financial condition. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on us as a result of the Dodd-Frank Act, these changes could be materially adverse to us and our stockholders.

***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including our ability or inability to make investments in companies that meet our investment criteria, variations in the interest rates on the debt securities we acquire, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Risks Related to our Advisers and their Affiliates***

***Our Adviser is recently formed and has limited operating history.***

Our Adviser was formed on April 13, 2012 and has limited operating history and limited experience acting as an investment adviser for a BDC. Our Adviser's capabilities in managing the investment process and providing competent services to us will depend on the employment of investment professionals in an adequate number and of adequate sophistication to match the corresponding flow of transactions. To achieve our investment objective, our Adviser may need to hire, train, supervise and manage new investment professionals. Our Adviser may not be able to find investment professionals in a timely manner or at all. Failure to support our investment process could have a material adverse effect on our business, financial condition and results of operations.

Our Advisers and their respective affiliates, including our officers and certain of our directors, may have conflicts of interest as a result of compensation arrangements, time constraints and competition for investments, which they will attempt to resolve in a fair and equitable manner, but which may result in actions that are not in your best interests. Our Advisers and their affiliates receive substantial fees from us in return for their services, and these fees could influence the advice provided to us. Among other matters, the compensation arrangements could affect their judgment with respect to public offerings of equity by us, which allow the Dealer Manager to earn additional dealer manager fees and our Advisers to earn increased management fees.

***We may be obligated to pay our Advisers incentive compensation even if we incur a net loss due to a decline in the value of our portfolio.***

Our Investment Advisory Agreement and Sub-Advisory Agreement entitle our Advisers to receive incentive compensation on income regardless of any capital losses. In such case, we may be required to pay our Advisers incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or if we incur a net loss for that quarter.

Any incentive fee payable by us that relates to our net investment income may be computed and paid on income that may include interest that has been accrued but not yet received. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously included in the calculation of the incentive fee will become uncollectible. Pursuant to the Investment Advisory Agreement and Sub-Advisory Agreement our Adviser and Sub-Adviser, respectively, will not be under any obligation to reimburse us for any part of the incentive fee they received that was based on accrued income that we never received as a result of a default by an entity on the obligation that resulted in the accrual of such income, and such circumstances would result in our paying an incentive fee on income we never received.

For federal income tax purposes, we may be required to recognize taxable income (such as deferred interest that is accrued as original issue discount) in circumstances in which we do not receive a corresponding payment in cash and to make distributions with respect to such income to maintain our status as a RIC even though we will not have received any corresponding cash amount. Under such circumstances, we may have difficulty meeting the annual distribution requirement necessary to obtain and maintain RIC tax treatment under the Code. Any difficulty in satisfying the annual distribution requirement may be amplified to the extent that we are required to pay an incentive fee with respect to such accrued income for which we have not received a corresponding cash payment. As a result, we may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

***The time and resources that individuals employed by the Advisers devote to us may be diverted and we may face additional competition due to the fact that neither our Advisers nor their affiliates are prohibited from raising money for or managing another entity that makes the same types of investments that we target.***

Certain investment professionals employed by our Sub-Adviser currently manage Main Street and other investment entities. In addition, neither our Adviser nor our Sub-Adviser is prohibited from raising money for and managing future investment entities that make the same types of investments as those we target; provided, however, that during the terms of the Investment Advisory Agreement and Sub-Advisory Agreement, except as otherwise agreed, neither the Adviser nor the Sub-Adviser may serve as an investment adviser to a public, non-traded BDC (other than another fund sponsored by the Adviser or the Sub-Adviser on which the Adviser and the Sub-Adviser work together). Additionally, the investment professionals employed by our Adviser are employees of Hines and its affiliates, and they may hold similar positions in numerous other entities and from time to time may allocate a material amount of their time to the management of other funds or assets unrelated to our business.

As a result, the time and resources that our Advisers devote to us may be diverted, and during times of intense activity in other programs, they may devote less time and resources to our business than is necessary or appropriate. In addition, we may compete with such investment entities for the same investors and investment opportunities. While the 1940 Act imposes significant limits on our co-investing with Main Street or other entities managed by our Advisers, we have received from the SEC exemptive relief under the 1940 Act that allows us some latitude to co-invest with Main Street.

***Our Sub-Adviser may face conflicts of interest in allocating investment opportunities between us and itself and its affiliates.***

The investment professionals employed by our Sub-Adviser are also the investment professionals responsible for investing and managing Main Street's securities portfolio. These professionals are responsible for allocating investment opportunities between us and Main Street. Our exemptive relief imposes on our Sub-Adviser the obligation to evaluate whether each investment opportunity its investment professionals review for Main Street is also appropriate for us and to propose an allocation of such opportunity to us if it deems such opportunity to be appropriate. If our Sub-Adviser arbitrarily determines that certain investment opportunities are appropriate for Main Street but not appropriate for us, or if our Sub-Adviser proposes an allocation of an investment opportunity to us that is disproportionately small relative to the proposed allocation to Main Street and our ability to fund the investment, our operating results could be adversely affected.

***The potential for our Advisers to earn incentive fees under the Investment Advisory Agreement and the Sub-Advisory Agreement may create an incentive for the Advisers to enter into investments that are riskier or more speculative than would otherwise be the case, and our Advisers may have an incentive to increase portfolio leverage in order to earn higher management fees.***

The incentive fee payable by us to our Advisers may create an incentive for them to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to our Advisers is determined may encourage them to use leverage to increase the return on our investments. In addition, the fact that our management fee is payable based upon our gross assets, which would include any borrowings for investment purposes, may encourage our Advisers to use leverage to make additional investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would result in higher investment losses.

***There are significant potential conflicts of interest that could impact our investment returns.***

We pay management and incentive fees to our Advisers, and reimburse our Advisers for certain expenses they incur. In addition, investors in shares of our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through direct investments.

The part of the incentive fee payable by us that relates to our pre-incentive fee net investment income is computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

***Our Adviser may seek to change the terms of our Investment Advisory Agreement, which could affect the terms of our Adviser's compensation.***

Our Investment Advisory Agreement will automatically renew for successive annual periods if approved by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. Moreover, conflicts of interest may arise if our Adviser seeks to change the terms of our Investment Advisory Agreement, including, for example, the terms for compensation. Any material change to the Investment Advisory Agreement must be submitted to stockholders for approval under the 1940 Act.

***The Sub-Advisory Agreement and the Investment Advisory Agreement contain co-termination provisions. Such provisions, if triggered, may leave us without an investment adviser or sub-adviser which could negatively impact our investment strategy and our ability to achieve our investment objective.***

Under the terms of the Sub-Advisory and Investment Advisory Agreements, if either of the Investment Advisory Agreement or Sub-Advisory Agreement is terminated or not renewed, then the other agreement will also terminate on the effective date of such termination or non-renewal. In addition, under the terms of the Investment Advisory Agreement and the Sub-Advisory Agreement, in the event either the Investment Advisory Agreement or the Sub-Advisory Agreement terminates because we terminate or fail to renew either agreement, neither the Adviser, the Sub-Adviser nor any of their affiliates may, except in certain limited circumstances, be re-engaged as Adviser or Sub-Adviser for a period of three years following the date of such termination without the consent of the party not seeking to be re-engaged. Because our success depends to a significant extent on the deal flow and key professionals of our Advisers, the termination of the Sub-Advisory Agreement or Investment Advisory Agreement could have a materially adverse effect on our ability to achieve our investment objective.

***Risks Related to Business Development Companies***

***Our failure to invest a sufficient portion of our assets in qualifying assets could result in our failure to maintain our status as a BDC.***

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. See "Regulation." Therefore, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets. Similarly, these rules could prevent us from making additional investments in existing portfolio companies, which could result in the dilution of our position, or could require us to dispose of investments at an inopportune time to comply with the 1940 Act. If we were forced to sell non-qualifying investments in the portfolio for compliance purposes, the proceeds from such sale could be significantly less than the current value of such investments.

***Failure to maintain our status as a BDC would reduce our operating flexibility.***

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility.

***Regulations governing our operation as a BDC and RIC will affect our ability to raise, and the way in which we raise, additional capital or borrow for investment purposes, which may have a negative effect on our growth.***

As a result of the annual distribution requirement to qualify as a RIC, we may need to periodically access the capital markets to raise cash to fund new investments. We may issue "senior securities," including borrowing money from banks or other financial institutions only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a BDC, therefore, we intend to continuously issue equity at a rate more frequent than our privately owned competitors, which may lead to greater stockholder dilution.

We expect to utilize leverage to generate capital to make additional investments. If the value of our assets declines, we may be unable to satisfy the asset coverage test under the 1940 Act, which could prohibit us from paying distributions and could prevent us from qualifying as a RIC. If we cannot satisfy the asset coverage test, we may be required to sell a portion of our investments and, depending on the nature of our debt financing, repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous.

Under the 1940 Act, we generally are prohibited from issuing or selling our common stock at a price below net asset value per share, which may be a disadvantage as compared with other public companies. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors and independent directors determine that such sale is in our best interests and the best interests of our stockholders, and our stockholders as well as those stockholders that are not affiliated with us approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the fair value of such securities.

***Our ability to enter into and exit transactions with our affiliates will be restricted.***

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of a majority of the independent members of our board of directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is considered our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any securities from or to such affiliate, absent the prior approval of our board of directors. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our board of directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we will be prohibited from buying or selling any security from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. We have, however, received an exemptive order from the SEC that permits us, notwithstanding the prohibitions contained in the 1940 Act to co-invest with Main Street under the conditions set forth in the exemptive relief in certain transactions originated by Main Street and/or our Advisers.

***We are uncertain of our sources for funding our future capital needs; if we cannot obtain debt or equity financing on acceptable terms, our ability to acquire investments and to expand our operations will be adversely affected.***

The net proceeds from the sale of shares of common stock will be used for our investment opportunities, operating expenses, working capital requirements, including distributions payable, and for payment of various fees and expenses such as management fees, incentive fees and other fees. Any working capital reserves we maintain may not be sufficient for investment purposes, and we may require debt or equity financing to operate. Accordingly, in the event that we develop a need for additional capital in the future for investments or for any other reason, these sources of funding may not be available to us. Consequently, if we cannot obtain debt or equity financing on acceptable terms, our ability to acquire investments and to expand our operations will be adversely affected. As a result, we would be less able to achieve portfolio diversification and our investment objective, which may negatively impact our results of operations and reduce our ability to pay distributions to our stockholders.

**Risks Related to Our Investments**

***Our investments in prospective portfolio companies, which tend to be senior secured term loans, senior lien loans and mezzanine debt and selected equity investments, may be risky, and we could lose all or part of our investment.***

We pursue a strategy focused on investing primarily in senior secured term loans, second lien loans and mezzanine debt and selected equity investments issued by middle market companies.

*Senior Secured Loans and Second Lien Loans*. When we make senior secured term loans and second lien loans, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries. We expect this security interest to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time or lose its entire value, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Finally, applicable bankruptcy laws may adversely impact the timing and methods used by us to liquidate collateral securing our loans, which could adversely affect the collectability of such loans. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

*Mezzanine Debt.* Our mezzanine debt investments will generally be subordinated to senior loans and will generally be unsecured. This may result in a heightened level of risk and volatility or a loss of principal which could lead to the loss of the entire investment.

Most loans in which we invest will not be rated, or would be if they were rated by a rating agency, as "below investment grade" quality. Indebtedness of below investment grade quality is regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. These investments may involve additional risks that could adversely affect our investment returns. We expect to hold debt and preferred equity instruments in our investment portfolio that contain PIK interest and cumulative dividend provisions. The PIK interest, computed at the contractual rate specified in each debt agreement, is periodically added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. If the debt principal is not repaid in full, then PIK interest will likewise be partially or wholly uncollectible. If our Adviser has collected a fee on an investment that provides for PIK interest, and such investment fails, our Adviser would not be required to re-pay the fee that it received with respect to that investment. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we will not receive any principal repayments prior to the maturity of some of our mezzanine debt investments, such investments will be of greater risk than amortizing loans.

*Equity Investments*. We expect to make certain equity investments. In addition, when we invest in first and second lien senior loans or mezzanine debt, we may acquire warrants to purchase equity securities. Our goal is ultimately to dispose of these equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and could decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

In addition, investing in private companies involves a number of significant risks, including that they:

- may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our officers and directors and employees of our Advisers may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and
- may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

We pursue a strategy focused on investing primarily in first lien, second lien, mezzanine debt, preferred equity and common equity issued by middle market companies. Our portfolio companies may have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which we invest. By their terms, such debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

Even though we intend to generally structure certain of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investment and subordinate all or a portion of our claim to that of other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or instances where we exercise control over the borrower.

***Second priority liens on collateral securing our loans may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.***

Certain loans of ours may be secured on a second priority basis by the same collateral securing senior secured debt of such companies. The first priority liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of, and be entitled to receive proceeds from, any realization of the collateral to repay their obligations in full before we receive anything. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. We may not have the ability to control or direct such actions, even if our rights are adversely affected.

***We generally will not control our portfolio companies.***

We do not expect to control our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity for our investments in non-traded companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

***We will be subject to financial market risks, including changes in interest rates, which may have a substantial negative impact on our investments.***

We are subject to financial market risks, including changes in interest rates. While the majority of our investments are floating-rate debt instruments, to the extent that we invest in fixed-rate securities or loans, general interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly have a material adverse effect on our investment objective and our rate of return on invested capital. In addition, an increase in interest rates would make it more expensive to use debt for our financing needs, if any.

***Economic recessions or downturns such as the one we have recently experienced could impair our portfolio companies and harm our operating results.***

Many of the portfolio companies in which we do, or may in the future, invest may be susceptible to economic slowdowns or recessions and may be unable to repay our debt investments during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may also decrease the value of any collateral securing our senior secured or second lien secured loans. A prolonged recession may further decrease the value of such collateral and result in losses of value in our portfolio and a decrease in our revenues, net income, assets and net worth. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us on terms we deem acceptable. These events could prevent us from increasing investments and harm our operating results. In addition, future financial market uncertainty could lead to further financial market disruptions and could further adversely impact our ability to obtain financing and the value of our investments.

***Defaults by our portfolio companies will harm our operating results.***

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

***We may not realize gains from our equity investments, which may adversely affect our investment returns and stockholders' ability to recover their entire investment in us.***

Certain investments that we may make could include warrants or other equity securities. In addition, we may make direct equity investments, including controlling investments, in companies. Our goal is ultimately to realize gains upon our disposition of such equity interests. We believe that we may be unable to significantly increase our net asset value per share unless we realize gains on our disposition of equity interests, thus creating risk that we will not ultimately recover our organization and offering costs, including our dealer manager fee and commissions on the sale of our shares of common stock. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience or to produce returns and distributions upon liquidation or sale of all our assets that provide investors with a return of all of their original purchase price for our shares of common stock. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests. We intend to seek puts or similar rights to give us the right to sell our equity securities back to the portfolio company issuer. We may be unable to exercise these put rights for the consideration provided in our investment documents if the issuer is in financial distress.

***An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies.***

Our investments are primarily in debt and equity securities of middle market companies, including privately held companies. Investments in private companies pose certain incremental risks as compared to investments in public companies. First, private companies have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress. Second, the investments themselves tend to be less liquid. As such, we may have difficulty exiting an investment promptly or at a desired price prior to maturity or outside of a normal amortization schedule. Finally, little public information generally exists about private companies. We must therefore rely on the ability of our Advisers to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from investing in these companies. These companies and their financial information will generally not be subject to the Sarbanes-Oxley Act and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. As a result, the relative lack of liquidity and the potential diminished capital resources of our target portfolio companies may affect our investment returns.

***The lack of liquidity in our investments may adversely affect our business.***

We invest in companies whose securities are typically not publicly traded, and whose securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. We expect that our investments will generally be subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of most of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

***We may not have the funds or ability to make additional investments in our portfolio companies.***

We may not have the funds or ability to make additional investments in our portfolio companies. After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment through the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce the expected return on the investment.

***We may concentrate our investments in companies in a particular industry or industries.***

In the event we concentrate our investments in companies in a particular industry or industries, any adverse conditions that disproportionately impact that industry or industries may have a magnified adverse effect on our operating results.

**Risks Relating to Debt Financing**

***We may have limited ability to fund new investments if we are unable to expand, extend or refinance our Syndicated Credit Facility or the HMS Funding Facility.***

On March 11, 2014, we entered into a $70 million senior secured credit facility (as amended from time to time, the "Syndicated Credit Facility") with Capital One, National Association ("Capital One") as the administrative agent, and other banks as participants (together with Capital One, the "Lenders") in the Facility. The Syndicated Credit Facility amended and restated in its entirety a pre-existing $15 million senior secured revolving credit facility with Capital One. The Syndicated Credit Facility has an accordion provision allowing increases in borrowing of up to $150 million, subject to certain conditions. On September 22, 2014, we and the Lenders entered into a Second Amendment to the Syndicated Credit Facility increasing the revolver commitments to $105 million. The maturity date of the Syndicated Credit Facility is March 11, 2017, subsequent to which we have two, one-year extension options, with Lender approval.

On June 2, 2014, our wholly-owned subsidiary, HMS Funding I LLC, a Delaware limited liability company ("HMS Funding"), entered into a credit agreement (the "HMS Funding Facility") among HMS Funding, the Company, as equityholder and servicer, Deutsche Bank AG, New York Branch ("Deutsche Bank"), and the financial institutions party thereto as lenders (together with Deutsche Bank, the "HMS Funding Lenders"). The HMS Funding Facility provided for an initial borrowing capacity of $50 million, subject to certain limitations, including limitations with respect to HMS Funding's investments, as more fully described in the HMS Funding Facility. On July 22, 2014, the HMS Funding Facility capacity was increased to $100 million. On December 3, 2014, the HMS Funding Facility capacity was increased to $125 million. On February 4, 2015, the HMS Funding Facility capacity was increased to $200 million. At HMS Funding's request and upon approval by HMS Funding Lenders, the maximum borrowings under the HMS Funding Facility can be increased by up to an additional $50 million, in the aggregate, subject to certain limitations contained in the HMS Funding Facility, for a total maximum capacity of $250 million. The HMS Funding Facility matures on June 3, 2019.

As of December 31, 2014, we had borrowings of $87.9 million outstanding on the Syndicated Credit Facility and had borrowings of $95.0 million outstanding on the HMS Funding Facility.

There can be no guarantee that we will be able to expand, extend or replace the Syndicated Credit Facility or the HMS Funding Facility on terms that are favorable to us, if at all. Our ability to expand the Syndicated Credit Facility and the HMS Funding Facility, and to obtain replacement financing at the time of maturity, will be constrained by then-current economic conditions affecting the credit markets.

As a BDC, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. Stated differently, the amount of our total borrowings and other senior securities as a percentage of our total assets cannot exceed 50%. If this ratio declines below 200%, we cannot incur additional debt and could be required to sell a portion of our investments to repay some debt when it is disadvantageous to do so.

Additionally, in March of 2012, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the "Agencies") jointly issued final guidelines on leveraged lending transactions conducted by regulated financial institutions (the "Leveraged Lending Guidance"). The Leveraged Lending Guidance outlines for Agency-supervised institutions high-level principles related to safe-and-sound leveraged lending and contains the Agencies' minimum expectations for a risk management framework that financial institutions should have in place. The Leveraged Lending Guidance provides only common definitions of leveraged lending and directs financial institutions to define leveraged lending in their internal policies. Therefore, banks or other financial institutions that provide financing to a BDC could determine that such financing constitutes leveraged lending under their leveraged lending policies. This would impose heightened regulatory requirements on such banks and other financial institutions when they make loans or provide other financing to a BDC, which may make financing more expensive and less available to BDCs. In November of 2014, the Agencies issued "Frequently Asked Questions (FAQ) for Implementing March 2013 Interagency Guidance on Leveraged Lending" that were designed to foster industry and examiner understanding of the Leveraged Lending Guidance and supervisory expectations for safe and sound underwriting and to promote consistent application of the Leveraged Lending Guidance. With regard to BDCs, the FAQ for example states that the risk management and reporting aspects of the Leveraged Lending Guidance should be applied to underlying loans in structured transactions if an institution originates or retains credit risk in the individual loans. If the financial institution originates or participates in a loan to a BDC that holds leveraged loans, then the loan to the BDC constitutes indirect exposure that should be measured and reported as a leveraged loan. The full impact of the Leveraged Lending Guidance and the FAQ is still uncertain, but it is possible that financing may become more expensive for us and banks or other financial institutions may be less willing to engage in leveraged lending, making it more difficult to obtain financing. In the event that we are not able to maintain the Syndicated Credit Facility and the HMS Funding Facility, or to expand, extend or refinance the Syndicated Credit Facility or the

HMS Funding Facility, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

***In addition to regulatory limitations on our ability to raise capital, our Syndicated Credit Facility and the HMS Funding Facility (together, the "Credit Facilities") contain various covenants, which, if not complied with, could accelerate our repayment obligations under the Credit Facilities, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.***

We will have a continuing need for capital to finance our operations. The Syndicated Credit Facility contains affirmative and negative covenants usual and customary for leveraged financings, including, but not limited to: (i) maintaining an interest coverage ratio of at least 2.0 to 1.0 (ii) maintaining an asset coverage ratio of at least 2.25 to 1.0 and (iii) maintaining a minimum consolidated tangible net worth, excluding Structured Subsidiaries, of at least $50 million, and the HMS Funding Facility contains affirmative and negative covenants usual and customary for leveraged financings, including but not limited to maintaining a positive tangible net worth and limitations on industry concentration. Further, the Syndicated Credit Facility contains usual and customary default provisions including, without limitation: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy of the Company; (iii) a material adverse change in the Company's business; or (iv) breach of any covenant, representation or warranty in the loan agreement or other credit documents and failure to cure such breach within defined periods and the HMS Funding Facility contains usual and customary default provisions including, without limitation: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy of the Company; (iii) the occurrence of a change of control; or (iv) any uncured breach of a covenant, representation or warranty in the HMS Funding Facility. Additionally, the Syndicated Credit Facility requires us to obtain written approval from the administrative agent prior to entering into any material amendment, waiver or other modification of any provision of the Advisory Agreement. The Syndicated Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set out in the Syndicated Credit Facility. Our continued compliance with the covenants contained in the Credit Facilities depends on many factors, some of which are beyond our control, and there are no assurances that we will continue to comply with these covenants. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the Syndicated Credit Facility or the HMS Funding Facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

***Because we borrow money, the potential for gain or loss on amounts invested in us is magnified and may increase the risk of investing in us.***

Borrowings, also known as leverage, magnify the potential for gain or loss on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks associated with investing in our securities. We may borrow from banks and other lenders, including under our Credit Facilities, and may issue debt securities or enter into other types of borrowing arrangements in the future. Our Credit Facilities contain financial and operating covenants that could restrict our business activities. Breach of any of those covenants could cause a default under those instruments. Such a default, if not cured or waived, could have a material adverse effect on us. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause our net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make distributions to our stockholders. Leverage is generally considered a speculative investment technique.

As of December 31, 2014, we had borrowings of $87.9 million outstanding on the Syndicated Credit Facility and had borrowings of $95.0 million outstanding on the HMS Funding Facility.

***Changes in interest rates may affect our cost of capital and net investment income.***

Since we use debt to finance investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates when we have debt outstanding, our cost of funds will increase, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions, and we will initially have to purchase or develop such expertise.

**Risks Relating to the Offering and Our Common Stock**

***Investors will not know the purchase price per share at the time they submit their subscription agreements and could pay a premium for their shares of common stock if our board of directors does not decrease the offering price in the event of a decline to our net asset value per share.***

The purchase price at which you purchase shares of common stock will be determined at each weekly closing date to ensure that shares of common stock are not sold at a price per share, after deduction of selling commissions and dealer manager fees, that is below our net asset value. In the event of a decrease to our net asset value per share, you could pay a premium for your shares of common stock if our board of directors does not decrease the offering price. A decline in our net asset value per share to an amount more than 5% below our current offering price, net of selling commissions and dealer manager fees, creates a rebuttable presumption that there has been a material change in the value of our assets such that a reduction in the offering price per share is warranted. This presumption may only be rebutted if our board of directors, in consultation with our management, reasonably and in good faith determines that the decline in net asset value per share is the result of a temporary movement in the credit markets or the value of our assets, rather than a more fundamental shift in the valuation of our portfolio. In the event that (i) net asset value per share decreases to more than 5% below our current net offering price and (ii) our board of directors believes that such decrease in net asset value per share is the result of a non-temporary movement in the credit markets or the value of our assets, our board of directors will undertake to establish a new net offering price that is not more than 5% above our net asset value per share. If our board of directors determines that the decline in our net asset value per share is the result of a temporary movement in the credit markets, investors will purchase shares of common stock at an offering price per share, net of selling commissions and dealer manager fees, which represents a premium to the net asset value per share of greater than 5%. Consistent with this policy, effective with the weekly stock closing on January 15, 2015, our offering price per share was lowered to $9.75. See "Item 1. Business – *Determination of Net Asset Value*."

As a result of this policy, your purchase price may be higher than the prior closing price per share, and therefore you may receive a smaller number of shares than if you had subscribed at the prior closing date.

***If we are unable to raise substantial funds in our ongoing, continuous "best efforts offering," we will be limited in the number and type of investments we may make, and the value of your investment in us may be reduced in the event our assets under-perform.***

Our continuous Offering is being made on a best efforts basis, whereby the Dealer Manager and broker-dealers participating in the offering are only required to use their best efforts to sell our shares of common stock and have no firm commitment or obligation to purchase any of the shares of common stock. In addition, selling brokers have more than one BDC offering to emphasize to prospective purchasers, a choice that may make success in conducting the offering more difficult. To the extent that less than the maximum number of shares of common stock is subscribed for, the opportunity for diversification of our investments may be decreased and the returns achieved on those investments may be reduced as a result of allocating all of our expenses among a smaller capital base.

***Our shares of common stock are not listed on an exchange or quoted through a quotation system and will not be listed for the foreseeable future, if ever. Therefore, you will have limited liquidity and may not receive a full return of your invested capital if you sell your shares of common stock.***

Our shares of common stock are illiquid assets for which there is not a secondary market nor is it expected that any will develop in the future. We intend to explore a potential liquidity event for our stockholders between four and six years following the completion of our offering period, which may include follow-on offerings after completion of this initial offering. However, there can be no assurance that we will complete a liquidity event within such time or at all. We expect that our board of directors, in the exercise of its duties to us, will determine to pursue a liquidity event when it believes that then-current market conditions are favorable for a liquidity event, and that such an event is in our best interests. A liquidity event could include (1) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation, (2) a listing of our shares of common stock on a national securities exchange or (3) a merger or another transaction approved by our board in which our stockholders will receive cash or shares of a publicly traded company.

In making the decision to apply for listing of our shares of common stock, our directors will try to determine whether listing our shares of common stock or liquidating our assets will result in greater value for our stockholders. In making a determination of what type of liquidity event is in our best interests, our board of directors, including our independent directors, may consider a variety of criteria, including, but not limited to, market conditions, portfolio diversification, portfolio performance, our financial condition, potential access to capital as a listed company, market conditions for the sale of our assets or listing of our common stock, internal management requirements to become a perpetual life company and the potential for stockholder liquidity. If our shares of common stock are listed, we cannot assure you a public trading market will develop. Since a portion of the offering price from the sale of shares of common stock in the Offering will be used to pay expenses and fees, the full offering price paid by stockholders will not be invested in portfolio companies. As a result, even if we do complete a liquidity event, you may not receive a return of all of your invested capital.

You should also be aware that shares of publicly traded closed-end investment companies frequently trade at a discount to their net asset value. If our shares of common stock are eventually listed on a national exchange, we would not be able to predict whether our common stock would trade above, at or below net asset value. This risk is separate and distinct from the risk that our net asset value per share may decline.

***Because the Dealer Manager is an affiliate of our Adviser you will not have the benefit of an independent review of us customarily performed in underwritten offerings.***

The Dealer Manager is an affiliate of Hines and did not make an independent review of us or the offering. Accordingly, you will have to rely on your own broker-dealer to make an independent review of the terms of the Offering. If your broker-dealer does not conduct such a review, you will not have the benefit of an independent review of the terms of the Offering. Further, the due diligence investigation of us by the dealer manager cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker. You will not have the benefit of an independent review and investigation of the Offering of the type normally performed by an unaffiliated, independent underwriter in an underwritten public securities offering. In addition, we do not, and do not expect to, have research analysts reviewing our performance or our securities on an ongoing basis. Therefore, you will not have an independent review of our performance and the value of our common stock relative to publicly traded companies.

***The Dealer Manager in the Offering has limited experience selling shares on behalf of a BDC and may be unable to sell a sufficient number of shares of common stock for us to achieve our investment objective.***

The success of the Offering, and correspondingly our ability to implement our business strategy, is dependent upon the ability of our dealer manager to establish and maintain a network of licensed securities brokers-dealers and other agents. Our Dealer Manager in the Offering has no prior experience selling shares on behalf of a BDC. There is therefore no assurance that it will be able to sell a sufficient number of shares to allow us to have adequate funds to purchase a diversified portfolio of investments. If the dealer manager fails to perform, we may not be able to raise adequate proceeds through the Offering to implement our investment strategy. As a result, we may be unable to achieve our investment objective, and you could lose some or all of the value of your investment.

***Our share repurchase program allows us to repurchase your shares on a quarterly basis, subject to certain restrictions and limitations. As a result, you will have limited opportunities to sell your shares and, to the extent you are able to sell your shares under the program, you may not be able to recover the amount of your investment in our shares.***

In September 2013, we commenced a share repurchase program allowing us to repurchase approximately 10% of our weighted average number of outstanding shares in any 12-month period, allowing you to sell back your shares to us on a quarterly basis at a price equal to the net asset value per share, as determined within 48 hours of the repurchase date. The share repurchase program includes numerous restrictions that will limit your ability to sell your shares. Unless our board of directors determines otherwise, we will limit the number of shares to be repurchased (i) during any calendar year to the number of shares we can repurchase with the proceeds we receive from the issuance of shares of our common stock under our distribution reinvestment plan during the trailing four quarters and (ii) in any calendar quarter to 2.5% of the weighted average number of shares of common stock outstanding during the trailing four quarters. At the discretion of our board of directors, we may also use cash on hand, cash available from borrowings and cash from the sale of our investments as of the end of the applicable period to repurchase shares. To the extent that the number of shares put to us for repurchase exceeds the number of shares that we are able to purchase, we will repurchase shares on a pro rata basis, not on a first-come, first-served basis. Further, we will have no obligation to repurchase shares if the repurchase would violate the restrictions on distributions under federal law or Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency. These limits may prevent us from accommodating all repurchase requests made in any year. In addition, our board of directors may suspend or terminate the share repurchase program. We will notify you of such developments: (i) in our quarterly reports or in prospectus supplements or (ii) by means of a separate mailing to you. In addition, even if we implement a share repurchase program, we will have discretion to suspend or terminate the program, and to cease repurchases. Further, the program may have many limitations and should not be relied upon as a method to sell shares promptly and at a desired price.

***The timing of our repurchase offers pursuant to our share repurchase program may be at a time that is disadvantageous to our stockholders.***

When we make quarterly repurchase offers pursuant to the share repurchase program, we may offer to repurchase shares of common stock at a price that is lower than the price that investors paid for shares of common stock in our offering. As a result, to the extent investors paid an offering price that includes the related sales load and to the extent investors have the ability to sell their shares of common stock pursuant to our share repurchase program, then the price at which an investor may sell shares of common stock, which will be at the net asset value per share, as determined within 48 hours prior to the repurchase date, may be lower than what an investor paid in connection with the purchase of shares of common stock in our offering.

***We may be unable to invest a significant portion of the net proceeds of the Offering on acceptable terms in an acceptable time frame.***

Delays in investing the net proceeds of the Offering may impair our performance. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds of the Offering on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

Before making investments, we will invest the net proceeds of our public Offering primarily in cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt instruments maturing in one year or less from the time of investment, which may produce returns that are significantly lower than the returns which we expect to achieve when our portfolio is fully invested in securities meeting our investment objective. As a result, any distributions that we pay while our portfolio is not fully invested in securities meeting our investment objective may be lower than the distributions that we may be able to pay when our portfolio is fully invested in securities meeting our investment objective.

***Under the terms of our charter, our board of directors is authorized to issue shares of preferred stock with rights and privileges superior to common stockholders without common stockholder approval.***

Under the terms of our charter, our board of directors is authorized to issue shares of preferred stock in one or more classes or series without stockholder approval. The board has discretion to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series of preferred stock. Every issuance of preferred stock will be required to comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock.

***Your interest in us will be diluted if we issue additional shares, which could reduce the overall value of your investment.***

Our investors do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 450,000,000 shares of common stock. Pursuant to our charter, a majority of our entire board of directors may amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series without stockholder approval. After your purchase in the Offering, our board may elect to sell additional shares in this or future public offerings, issue equity interests in private offerings or issue share-based awards to our independent directors or employees of our Advisers. To the extent we issue additional equity interests after your purchase in the Offering, your percentage ownership interest in us will be diluted. In addition, depending upon the terms and pricing of any additional offerings and the value of our investments, you may also experience dilution in the book value and fair value of your shares of common stock.

***Certain provisions of our charter and bylaws as well as provisions of the Maryland General Corporation Law could deter takeover attempts and have an adverse impact on the value of our common stock.***

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from attempting to acquire us. Under the Maryland General Corporation Law, “control shares” acquired in a “control share acquisition” have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror, by officers or by employees who are directors of the corporation. Our bylaws contain a provision exempting from the Control Share Acquisition Act under the Maryland General

Corporation Law any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at some time in the future. The Control Share Acquisition Act (if we amend our bylaws to be subject to that Act) may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if our board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Control Share Acquisition Act does not conflict with the 1940 Act. The SEC staff has issued informal guidance setting forth its position that certain provisions of the Control Share Acquisition Act, if implemented, would violate Section 18(i) of the 1940 Act. Under the Maryland General Corporation Law, specified "business combinations," including mergers, consolidations, share exchanges, or, in circumstances specified in the statute, asset transfers or issuances or reclassifications of equity securities, between a Maryland corporation and any person who owns 10% or more of the voting power of the corporation's outstanding voting stock, and certain other parties (each an "interested stockholder"), or an affiliate of the interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter any of the specified business combinations must be approved by two super majority votes of the stockholders unless, among other conditions, the corporation's common stockholders receive a minimum price for their shares.

Under the Maryland General Corporation Law, certain statutory provisions permit a corporation that is subject to the Exchange Act and that has at least three independent directors to be subject to certain corporate governance provisions notwithstanding any contrary provision in the corporation's charter and bylaws. Among other provisions, a board of directors may classify itself without the vote of stockholders. Further, the board of directors, by electing into certain statutory provisions and notwithstanding any contrary provision in the charter or bylaws, may (i) provide that a special meeting of stockholders will be called only at the request of stockholders entitled to cast at least a majority of the votes entitled to be cast at the meeting, (ii) reserve for itself the right to fix the number of directors, and (iii) retain for itself the exclusive power to fill vacancies created by the death, removal or resignation of a director. A corporation may be prohibited by its charter or by resolution of its board of directors from electing to be subject to any of the provisions of the statute. We are not prohibited from implementing any or all of the statute.

Additionally, our board of directors may, without stockholder action, authorize the issuance of shares of stock in one or more classes or series, including preferred stock; and our board of directors may, without stockholder action, amend our charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. These provisions may inhibit a change of control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the value of our common stock.

***Because there is no public trading market for shares of our common stock and we are not obligated to effectuate a liquidity event by a specified date, it will be difficult for you to sell your shares of common stock.***

We intend to explore a potential liquidity event for our stockholders between four to six years following the completion of our offering period. We expect that our board of directors, in the exercise of the requisite standard of care applicable to directors under Maryland law, will determine to pursue a liquidity event when it believes that then-current market conditions are favorable for a liquidity event, and that such a transaction is in our best interests. A liquidity event could include (1) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation, (2) a listing of our shares of common stock on a national securities exchange or (3) a merger or another transaction approved by our board in which our stockholders will receive cash or shares of a publicly traded company. However, there can be no assurance that we will complete a liquidity event within such time or at all. If we do not successfully complete a liquidity event, liquidity for your shares of common stock will be limited to our share repurchase program which we have no obligation to maintain.

**Federal Income Tax Risks**

***We will be subject to corporate-level U.S. federal income tax if we are unable to satisfy the various RIC qualification requirements.***

To obtain and maintain RIC tax treatment under the Code, we must meet the following annual distribution, income source and asset diversification requirements:

- In order to obtain RIC tax treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our net ordinary income plus the excess, if any, of realized net short-term capital gain over realized net long-term capital loss. We will be subject to corporate-level U.S. federal income tax on any of our undistributed income or gain. Additionally, we will be subject to a 4% nondeductible federal excise tax to the extent that we do not satisfy certain additional minimum distribution requirements on a calendar-year basis. Because we may use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act and may in the future become subject to certain financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

- The income source requirement will be satisfied if we obtain at least 90% of our gross income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. government securities, securities of other RICs, and other acceptable securities; and no more than 25% of the value of our assets can be invested in the securities (other than U.S. government securities or securities of other RICs) of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships." Failure to meet these requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of our RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial economic losses.

If we fail to satisfy the income test or the diversification test in any taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions are applicable (which may, among other things, require us to pay certain corporate-level U.S. federal taxes or dispose of certain assets).

If we fail to qualify for, or to maintain, RIC tax treatment for any reason or do not qualify to cure the disqualification, the resulting corporate income taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. We may also be subject to certain U.S. federal excise taxes, as well as state, local and foreign taxes. See "Item 1. Business — *Taxation as a Regulated Investment Company*."

***We may have difficulty paying our required distributions if we recognize taxable income before or without receiving a corresponding cash payment.***

For federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. We anticipate that a portion of our income may constitute original issue discount or other income required to be included in taxable income prior to receipt of cash. Further, we may elect to amortize market discount and include the amount of the market discount in our taxable income over the remaining term of the market discount instrument, instead of upon disposition, as failing to make such an election could limit our ability to deduct interest expenses for tax purposes.

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of the accrual, we may be required to make a distribution to our stockholders in order to satisfy the annual distribution requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the annual distribution requirement necessary to obtain and maintain RIC tax treatment under the Code. We may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax. For additional discussion regarding the tax implications of a RIC, see "Item 1. Business — *Taxation as a Regulated Investment Company."*

***You may have current tax liability on distributions you elect to reinvest in our common stock but would not receive cash from such distributions to pay such tax liability.***

If you participate in our distribution reinvestment plan, you will be deemed to have received, and for U.S. federal income tax purposes will be taxed on, the amount reinvested in our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of our common stock received from the distribution.

***If we do not qualify as a "publicly offered regulated investment company," as defined in the Code, you will be taxed as though you received a distribution of some of our expenses.***

A "publicly offered regulated investment company" is a RIC whose shares are either (i) continuously offered pursuant to a public offering, (ii) regularly traded on an established securities market or (iii) held by at least 500 persons at all times during the taxable year. If we are not a publicly offered RIC for any period, a non−corporate stockholder's allocable portion of our affected expenses, including our management fees, will be treated as an additional distribution to the stockholder and will be deductible by such stockholder only to the extent permitted under the limitations described below. For non−corporate stockholders, including individuals, trusts, and estates, significant limitations generally apply to the deductibility of certain expenses of a non−publicly offered RIC, including advisory fees. In particular, these expenses, referred to as miscellaneous itemized deductions, are deductible to an individual only to the extent they exceed 2% of such a stockholder's adjusted gross income, and are not deductible for alternative minimum tax purposes. Because shares of our common stock currently are continuously offered pursuant to a public offering, we believe that we currently constitute a publicly offered regulated investment company. There can be no assurance, however, that shares of our common stock will continue to be continuously offered pursuant to a public offering or that we will otherwise constitute a publicly offered regulated investment company in the future.

**Item 1B.** ***Unresolved Staff Comments***

Not applicable.

**Item 2.** ***Properties***

We do not own any real estate or other physical properties. Currently, the Adviser leases office space in Houston, Texas for its corporate headquarters. We believe that the office facilities of the Adviser are suitable and adequate for our business as it is contemplated to be conducted.

**Item 3.** ***Legal Proceedings***

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

**Item 4.** ***Mine Safety Disclosures***

Not applicable.

## PART II

### Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

**Market Information**

There is currently no market for our common stock, and we do not expect one to develop. Therefore, there is a risk that a stockholder may not be able to sell our stock at a time or price acceptable to the stockholder, or at all. None of our common stock has been authorized for issuance under any equity compensation plans.

We are offering shares of our common stock on a continuous basis at a current offering price of $9.75 per share; however, to the extent that our net asset value per share increases, we will sell shares of our common stock at a price necessary to ensure that shares of our common stock are not sold at a price per share, after deduction of selling commissions and dealer manager fees, that is below net asset value per share. In connection with each weekly closing on the sale of shares of our common stock pursuant to our prospectus, as amended or supplemented, which relates to our Offering, our board of directors or a committee thereof is required, within 48 hours of the time that each closing and sale is made, to make the determination that we are not selling shares of our common stock at a price per share which, after deducting selling commissions and dealer manager fees, is below our then current net asset value per share.

In the event of a material decline in our net asset value per share, which we consider to be a non-temporary 5% or more decrease below our then-current net offering price, and subject to certain conditions, we will reduce our Offering price accordingly. Therefore, persons who subscribe for shares in our Offering must submit subscriptions for a fixed dollar amount rather than a number of shares and, as a result, may receive fractional shares of our common stock. Promptly following any such adjustment to the Offering price per share, we will file a prospectus supplement with the SEC disclosing the adjusted Offering price, and we will post the updated information on our website at www.HinesSecurities.com.

Set forth below is a chart describing the classes of our securities outstanding as ofFebruary 28, 2015:

| (1) | (2) | (3) | (4) |
|---|---|---|---|
| **Title of Class** | Amount Authorized | Amount Held by Us or for Our Account | Amount Outstanding Exclusive of Amount Under Column (3) |
| Common Shares | 150,000,000 | — | 37,601,202 |

As of February 28, 2015, we had 7,910 record holders of our common stock.

**Distributions and Taxable Income**

Subject to our board of directors' discretion and applicable legal restrictions, we intend to declare distributions to our stockholders on a quarterly basis payable to stockholders as of daily record dates and aggregate and pay such distributions monthly. With the authorization of our board of directors, we declared distributions for the period from June 1, 2012 through December 31, 2014. These distributions were calculated based on stockholders of record each day in an amount equal to $0.00191781 per share, per day (which represents an annualized distribution yield of 7.00% based on our initial offering price of $10.00 per share, if it were maintained every day for a twelve-month period).

We have also declared distributions to our stockholders for the period of January 1, 2015 through March 31, 2015. These distributions are calculated based on stockholders of record each day in an amount equal to $0.00191781 per share, per day (which represents an annualized distribution yield of 7.00% based on our initial offering price of $10.00 per share and 7.18% based on our current offering price of $9.75 per share, if it were maintained every day for a twelve-month period). Distributions are paid on the first business day following the completion of each month to which they relate. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — *Liquidity and Capital Resources*" for additional information regarding our distributions.

We may fund our cash distributions from any sources of funds available, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to us on account of preferred and common equity investments in portfolio companies and fee waivers from our Advisers.

In addition, on September 13, 2012, our board of directors declared a special stock dividend of approximately 2.25 shares of our common stock ($0.001 par value per share) per 100 shares of common stock. The stock dividend was issued on September 14, 2012 to stockholders of record on September 13, 2012. The purpose of this action was to ensure that the Company's net asset value per share did not exceed our current offering price, after deduction of selling commissions and dealer manager fees, as required by the 1940 Act.

We have elected to be treated for U.S. federal income tax purposes as a RIC. As a RIC, we generally will not pay corporate-level U.S. federal income taxes on net ordinary income or capital gains that we distribute to our stockholders from taxable earnings and profits as distributions. We must generally distribute at least 90% of our investment company taxable income to qualify for pass-through tax treatment and to maintain our RIC status. As a part of maintaining RIC status, undistributed taxable income (subject to a 4% excise tax) pertaining to a given taxable year may be distributed up to 12 months subsequent to the end of that taxable year, provided such distributions are declared prior to the filing of the federal income tax return for the prior year. In 2012, we estimated approximately $117,000, or $0.09 per share, of our taxable income for 2012 which was distributed in 2013, prior to the filing of our federal income tax return for the 2012 taxable year. This was subject to the 4% nondeductible excise tax. In 2013, we estimated approximately $7,000, or $0.001 per share, of our taxable income for 2013 would be distributed in 2014, prior to the filing of our federal income tax return for our 2013 taxable year. Since the Company distributed enough to eliminate the excise tax liability, none of this was subject to the 4% nondeductible excise tax, . In 2014, we expect approximately $59,000, or $0.0019 per share, of our taxable income for 2014 will be distributed in 2015, prior to the filing of our federal income tax return for our 2014 taxable year. We anticipate none of this will be subject to the 4% nondeductible excise tax. In order to avoid excise tax, we need to distribute, during each calendar year an amount at least equal to the sum of (1) 98.0% of our net ordinary income for the calendar year, (2) 98.2% of our capital gain in excess of capital loss for the calendar year and (3) any net ordinary income and net capital gain for the preceding year that was not distributed during such year and on which we paid no U.S. federal income tax.

Ordinary distributions from a RIC do not qualify for the 20% maximum federal income tax rate plus a 3.8% Medicare surtax, if applicable, on dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax attributes for distributions will generally include both ordinary income and capital gains but may also include qualified dividends or return of capital.

The determination of the tax attributes of our distributions is made annually at the end of our taxable year based upon our taxable income for the full year and distributions paid for the full year. The actual tax characteristics of distributions to stockholders will be reported to stockholders annually on a Form 1099-DIV. Promptly following the payment of distributions to all stockholders of record, we will send information to stockholders residing in Maryland regarding the estimated source of such distributions.

Our distributions may exceed our earnings, especially during the period before we have substantially invested the proceeds from the Offering. As a result, a portion of the distributions we make may represent a return of capital for U.S. federal income tax purposes.

In the period before the Merger Transaction, January 1, 2012 through May 31, 2012, HMS Income LLC distributed 100% of its partnership taxable income as ordinary income. From June 1, 2012 through December 31, 2012, the period during 2012 in which the Company elected to be treated as a RIC, 100% of our distributions paid were taxable to the investor as ordinary income and none of such distributions were treated as return of capital for federal income tax purposes. For the period from January 1, 2013 through December 31, 2013, 96.31% of our distributions declared were taxable to the investor as ordinary income and 3.69% were treated as long-term capital gain for federal income tax purpose. For the period from January 1, 2014 through December 31, 2014, 99.51% of our distributions declared will be taxable to the investor as ordinary income and 0.49% will be treated as long-term capital gain for federal income tax purpose.

**Recent Sales of Unregistered Securities**

In connection with the Merger Transaction we issued 1,123,157 shares of our common stock in exchange for a total of 1,111,111 membership units of HMS Income LLC, based on a $9.00 per share price (based on the $10.00 per share initial offering price less the 10% sales load not incurred) and the net asset value of HMS Income LLC determined at the time of the Merger Transaction by our board of directors and the managers of HMS Income LLC. These shares of common stock were issued pursuant to an exemption from registration under Rule 506 of Regulation D of the Securities Act of 1933, as amended. There have been no other sales of unregistered securities within the past three years.

**Use of Proceeds from Registered Securities**

The SEC declared the Registration Statement effective on June 4, 2012, and the Offering commenced shortly thereafter. From June 4, 2012 through December 31, 2014, we raised gross proceeds of approximately $295.2 million through the sale of 30,985,378 shares of common stock to the public in connection with the Offering, including $5.1 million through the issuance of approximately 562,825 shares of common stock through our distribution reinvestment plan. During that time, we paid $26.8 million of selling commissions and Dealer Manager fees and $4.4 million of issuer costs related to the Offering. The selling commissions and dealer manager fees were not paid with respect to the shares of common stock issued through our distribution reinvestment plan. The selling commissions and dealer manager fees were paid to our Dealer Manager, which is an affiliate of the Adviser. Net proceeds, from June 4, 2012 through December 31, 2014, available for investment after the payment of the costs described above were approximately $264.0 million. We used these funds to make investments and fund our general and administrative expenses.

During the year ended December 31, 2014, we did not sell or issue any equity securities that were not registered under the Securities Act.

The following table lists shares we repurchased under our share repurchase program during the period covered by this report.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| One Month Ended September 30, 2013 | — | $ 8.90 | — | — |
| One Month Ended October 31, 2013 | — | — | — | — |
| One Month Ended November 30, 2013 | — | — | — | — |
| One Month Ended December 31, 2013 | 395.00 | $ 8.89 | 395.00 | — |
| One Month Ended January 31, 2014 | — | — | — | — |
| One Month Ended February 28, 2014 | — | — | — | — |
| One Month Ended March 31, 2014 | 1,666.67 | $ 8.85 | 1,666.67 | — |
| One Month Ended April 30, 2014 | — | — | — | — |
| One Month Ended May 31, 2014 | — | — | — | — |
| One Month Ended June 30, 2014 | 9,763.27 | $ 8.87 | 9,763.27 | — |
| One Month Ended July 31, 2014 | — | — | — | — |
| One Month Ended August 31, 2014 | — | — | — | — |
| One Month Ended September 30, 2014 | 6,092.90 | $ 8.82 | 6,092.90 | — |
| One Month Ended October 31, 2014 | — | — | — | — |
| One Month Ended November 30, 2014 | — | — | — | — |
| One Month Ended December 31, 2014 | 340.00 | $ 8.51 | 340.00 | — |
| **Total** | 18,257.84 | | 18,257.84 | |

(1) Unless our board of directors determines otherwise, we will limit the number of shares we repurchase (i) in any calendar year to the proceeds we receive from the sale of shares of our common stock under our distribution reinvestment plan during the trailing four quarters and (ii) in any calendar quarter to 2.5% of the weighted average number of shares of common stock outstanding during the trailing four quarters.

**Item 6.** ***Selected Financial Data***

The selected financial and other data below as of December 31, 2014, 2013 and 2012 and for the years ended December 31, 2014, 2013, 2012 and the period from inception (November 22, 2011) through December 31, 2011 have been derived from financial statements that have been audited by Grant Thornton LLP, an independent registered public accounting firm. The data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

| | Year Ended December 31, 2014 | Year Ended December 31, 2013 | Year Ended December 31, 2012 | For the Period from Inception (November 22, 2011) through December 31, 2011 |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| **Statement of operations data:** | | | | |
| Interest income: | | | | |
| Non-Control/Non-Affiliate investments | $ 19,013 | $ 2,758 | $ 1,238 | $ 90 |
| Affiliate investments | 170 | — | 635 | — |
| Control investments | 30 | — | — | — |
| Total interest income | 19,213 | 2,758 | 1,873 | 90 |
| Expenses: | | | | |
| Interest expense | 3,325 | 419 | 316 | 16 |
| Base management and incentive fees | 6,029 | 784 | 358 | — |
| Administrative services expenses | 1,497 | 1,018 | 438 | — |
| Professional fees | 478 | 361 | 201 | — |
| Insurance | 191 | 186 | 108 | — |
| Other general and administrative | 595 | 240 | 114 | 18 |
| Expenses before fee and expense waivers | 12,115 | 3,008 | 1,535 | 34 |
| Waiver of management and incentive fees | (2,274) | (784) | (358) | — |
| Waiver of administrative services expenses | (1,497) | (1,018) | (438) | — |
| Expense support payment from Adviser | (328) | (153) | — | — |
| Total expenses, net of fee and expense waivers | 8,016 | 1,053 | 739 | 34 |
| Net investment income | 11,197 | 1,705 | 1,134 | 56 |
| Total realized gain from investments | 20 | 27 | 14 | — |
| Net realized income | 11,217 | 1,732 | 1,148 | 56 |
| Total net unrealized appreciation (depreciation) | (14,214) | 421 | 87 | (36) |
| **Net increase (decrease) in net assets resulting from operations** | $ (2,997) | $ 2,153 | $ 1,235 | $ 20 |
| Net investment income per share/unit – basic and diluted | $ 0.70 | $ 0.64 | $ 0.99 | $ 0.05 |
| Net realized income per share/unit – basic and diluted | $ 0.70 | $ 0.65 | $ 1.00 | $ 0.05 |
| Net increase (decrease) in net assets from operations per share/unit – basic and diluted | $ (0.19) | $ 0.81 | $ 1.08 | $ 0.02 |
| Stockholder distributions declared per share/unit – basic and diluted | $ 0.70 | $ 0.70 | $ 0.94 | $ — |
| Weighted average shares/units outstanding – basic and diluted | 16,022,853 | 2,648,689 | 1,151,554 | 1,111,111 |

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 |
| | (dollars in thousands) | | | |
| **Balance sheet data:** | | | | |
| Assets: | | | | |
| Total portfolio investments at fair value | $ 473,862 | $ 66,882 | $ 16,132 | $ 16,387 |
| Cash and cash equivalents | 19,868 | 6,356 | 1,832 | 942 |
| Interest receivable | 4,328 | 399 | 58 | 26 |
| Receivable for securities sold | 3,014 | — | — | — |
| Prepaid and other assets | 338 | 109 | 82 | — |
| Due from Main Street Capital Corporation | — | 19 | 1,003 | 170 |
| Deferred offering costs (net of accumulated amortization) | 2,388 | 3,688 | 2,508 | — |
| Deferred financing costs (net of accumulated amortization) | 2,426 | 168 | 210 | 27 |
| Total assets | $ 506,224 | $ 77,621 | $ 21,825 | $ 17,552 |
| Liabilities and net assets: | | | | |
| Accounts payable and other liabilities | $ 246 | $ 71 | $ 114 | $ 18 |
| Payable for unsettled trades | 6,249 | 2,608 | 290 | — |
| Distribution payable | 1,760 | 295 | 76 | — |
| Due to affiliates | 4,530 | 3,771 | 2,922 | 14 |
| Payable for securities purchased | 50,512 | 8,799 | — | — |
| Notes payable | 182,864 | 14,000 | 7,000 | 7,500 |
| Total liabilities | 246,161 | 29,544 | 10,402 | 7,532 |
| Total net assets | 260,063 | 48,077 | 11,423 | 10,020 |
| Total liabilities and net assets | $ 506,224 | $ 77,621 | $ 21,825 | $ 17,552 |
| **Other data:** | | | | |
| Weighted average effective yield on LMM debt investments(1) | 11.3% | 15.0% | 14.4% | 13.7% |
| Number of LMM debt portfolio investments | 11 | 2 | 6 | 6 |
| Weighted average effective yield on privately placed debt (1) | 8.0% | 7.3% | 8.2% | 8.3% |
| Number of privately placed portfolio investments | 77 | 62 | 11 | 11 |
| Weighted average effective yield on Private Loan debt(1) | 9.7% | 9.5% | — | — |
| Number of Private Loan portfolio investments | 11 | 2 | — | — |
| Weighted average effective yield on total portfolio(1) | 8.1% | 7.5% | 9.9% | 9.7% |
| Number of LMM equity investments (2) | 9 | — | — | — |
| Number of Other Portfolio investments (2) | 1 | — | — | — |
| Expense ratios (as percentage of average net assets): | | | | |
| Total expenses | 5.62% | 4.23% | 7.05% | 0.34% |
| Operating expenses excluding interest expense | 3.29% | 2.55% | 4.03% | 0.18% |

(1)Weighted-average effective yield is calculated based on our investments at the end of each period and includes accretion of original issue discounts and amortization of premiums, and the amortization of fees received in connection with transactions. Investments on non-accrual status are assumed to have a zero yield in the calculation of weighted-average effective yield.

(2)Investments were non-income producing during the year ended December 31, 2014.

**Item 7.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

*The following discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K.*

*Statements we make in the following discussion which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance or achievements, or industry results, could differ materially from those we express in the following discussion as a result of a variety of factors, including the risks and uncertainties we have referred to under the headings "Cautionary Statement Concerning Forward Looking Statements" and "Risk Factors" in Part I of this report.*

## OVERVIEW

We are a specialty finance company sponsored by Hines that makes debt and equity investments in middle market companies which we define as companies with annual revenues generally between $10 million and $3 billion. We are an externally managed, non-diversified closed-end investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. We are, therefore, required to comply with certain regulatory requirements. We have elected to be treated for U.S. federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code.

Our primary investment objective is to generate current income through debt and equity investments, and a secondary objective is to generate long-term capital appreciation through such investments. We anticipate that we will primarily invest in senior secured and second lien debt securities issued by middle market companies in private placements and negotiated transactions, which are traded in private over-the-counter markets for institutional investors. We will also invest in, and ultimately intend to have a significant portion of our assets invested in, customized direct secured and unsecured loans to and equity securities of lower middle market companies, which we define as companies with annual revenues generally between $10 million and $150 million, referred to as customized lower middle market securities. Typically, our investments in lower middle market companies will require us to co-invest with Main Street and/or its affiliates.

As a BDC, we are subject to certain regulatory restrictions in making our investments, including limitations on our ability to co-invest with certain affiliates, including Main Street. However, on April 15, 2014, we received an order from the SEC, that permits us, subject to certain conditions, to co-invest with Main Street in certain transactions originated by Main Street and/or our Advisers. The exemptive relief permits us, and certain of our directly or indirectly wholly-owned subsidiaries on one hand, and Main Street, and or/certain of its affiliates on the other hand, to co-invest in the same investment opportunities where such investment would otherwise be prohibited under Section 57(a)(4) of the 1940 Act. In addition, we may continue to co-invest with Main Street and/or its affiliates in syndicated deals and secondary loan market purchases where price is the only negotiated point. Prior to obtaining exemptive relief, we have co-invested alongside Main Street and/or its affiliates only in accordance with existing regulatory guidance. These co-investments have been in syndicated deals and secondary loan market transactions where price is the only negotiated point.

As of December 31, 2014, we had debt investments in 77 private placement investments, 11 Private Loan investments, 11 LMM debt investments, 9 LMM equity investments and 1 Other Portfolio investment with an aggregate fair value of approximately $473.9 million, a cost basis of approximately $487.6 million, and a weighted average effective annual yield of approximately 8.1%. The weighted average annual yield was calculated using the effective interest rates for all debt investments at December 31, 2014, including accretion of original issue discount and amortization of the premium to par value, the amortization of fees received in connection with transactions, and assumes zero yield for investments on non-accrual status. Approximately 79.1% and 18.0% of our total portfolio investments (at fair value) were secured by first priority liens and second priority liens on portfolio company assets, respectively, with the remainder in unsecured debt investments and equity investments.

The level of new portfolio investment activity will fluctuate from period to period based upon the status of our capital raising efforts under the Offering, our view of the current economic fundamentals, our ability to identify new investment opportunities that meet our investment criteria and our ability to close on the identified transactions. The level of new investment activity, and associated interest and fee income, will directly impact future investment income. While we intend to grow our portfolio and our investment income over the long-term, our growth and our operating results may be more limited during depressed economic periods. However, we intend to appropriately manage our cost structure and liquidity position based on applicable economic conditions and our investment outlook. The level of realized gains or losses and unrealized appreciation or depreciation will also fluctuate depending upon portfolio activity and the performance of our individual portfolio companies. The changes in realized gains and losses and unrealized appreciation or depreciation could have a material impact on our operating results.

*Investment Income*

We have generated, and plan to continue to generate, investment income primarily in the form of interest on the debt securities that we hold, dividends and other distributions with respect to any equity interests that we hold and capital gains, if any, on convertible debt or other equity interests that we acquire in portfolio companies. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, monitoring fees, and possibly consulting fees and performance-based fees. All such fees will be generated in connection with our investments and recognized as earned or as additional yield over the life of the debt investment. To date our investment income has been interest income on debt investments, accretion of original issue discounts, amortization of premiums and fees received from transactions and net realized/unrealized appreciation (depreciation).

*Expenses*

On both a short-term and long-term basis, our primary use of funds will be investments in portfolio companies and cash distributions to our stockholders. Our primary operating expenses will be debt service payments, general and administrative expenses and payment of advisory fees under the Advisory Agreement. The investment advisory fees paid to our Adviser (and the fees paid by our Adviser to our Sub-Adviser pursuant to the Sub-Advisory Agreement) will compensate our Advisers for their work in identifying, evaluating, negotiating, executing, monitoring and servicing our investments. We expect our expenses to fluctuate based upon the amount of assets under management.

We bear all other expenses of our operations and transactions, including (without limitation) fees and expenses relating to:

- corporate and organizational expenses relating to offerings of our common stock, subject to limitations included in the Advisory Agreement;
- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchase of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, monitoring our financial and legal affairs, making investments, and valuing investments, including fees and expenses associated with performing due diligence reviews of prospective investments;
- interest payable on debt, if any, incurred to finance our investments;
- investment advisory fees;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees;
- federal, state and local taxes;
- independent directors' fees and expenses, including travel expenses;
- costs of director and stockholder meetings, proxy statements, stockholders' reports and notices;
- cost of fidelity bond, directors and officers/errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing of stockholder reports and advertising or sales materials, mailing, long distance telephone, and staff;
- fees and expenses associated with independent audits and outside legal costs, including compliance with the Sarbanes-Oxley Act of 2002, amended, the 1940 Act, and applicable federal and state securities laws;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws;
- brokerage commissions for our investments;
- all other expenses incurred by our Advisers, in performing their obligations subject to the limitations included in the Advisory Agreement and Sub-Advisory Agreement; and
- all other expenses incurred by us or any administrator in connection with administering our business, including payments under any administration agreement that will be based upon our allocable portion of overhead and other expenses incurred by any administrator in performing its obligations under any proposed administration agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer and chief financial officer and their respective staffs.

*Base Management and Incentive Fee, Administrative Services Expense Waiver and Expense Support and Conditional Reimbursement Agreement*

On May 31, 2012, we and the Advisers entered into a conditional fee waiver agreement and subsequent amendments, pursuant to which, for a period from June 4, 2012 to December 31, 2013, the Advisers can waive all fees upon the occurrence of any event that, in the Advisers' sole discretion, is deemed necessary, including, but neither limited to nor automatically triggered by, our estimate that a distribution declared and payable to our stockholders during the fee waiver period represents, or would represent when paid, a return of capital for U.S. federal income tax purposes. We refer to this conditional fee waiver agreement, as amended from time to time, as the "Conditional Fee Waiver Agreement." Further, the agreement contains a clause which states that at the sole and absolute discretion of our board of directors, in future periods, previously waived fees may be paid to the Advisers if and only to the extent that our cumulative net increase in net assets resulting from operations exceeds the amount of cumulative distributions paid to stockholders. The previously waived fees are potentially subject to repayment by us, if at all, within a period not to exceed three years from the date of each respective fee waiver.

On December 30, 2013, we and our Advisers agreed to an amendment, or Fee Waiver Amendment, to the Conditional Fee Waiver Agreement. Under the Fee Waiver Amendment, our Adviser has agreed to extend the term of the fee waiver with respect to our Adviser (but not with respect to the Sub-Adviser, whose waiver expired on December 31, 2013) through December 31, 2014.

Reimbursement of previously waived fees will only be permitted with the approval of the our board of directors and if the operating expense ratio is equal to or less than our operating expense ratio at the time the corresponding fees were waived and if the annualized rate of regular cash distributions to stockholders is equal to or greater than the annualized rate of the regular cash distributions at the time the corresponding fees were waived.

For the years ended December 31, 2014, 2013, and 2012, we incurred base management fees of approximately$5.6 million, $779,000 and $232,000, respectively, capital gains incentive fees of approximately $0, $5,000 and $3,000, respectively, and subordinated incentive fees on income of $451,000, $0 and $123,000, respectively. For the years ended December 31, 2014, 2013 and 2012, the Advisers waived base management fees of $1.8 million, $779,000 and $232,000, respectively, and capital gains incentive fees of $0, $5,000 and $3,000, respectively, and subordinated incentive fees on income of $451,000, $0 and $123,000, respectively. During the years ended December 31, 2014, 2013 and 2012, we did not record an accrual for any previously waived fees. Any reimbursement of previously waived fees to the Advisers will not be accrued until the reimbursement of the waived fees become probable and estimable, which will be upon approval by our board of directors. To date none of the previously waived fees have been approved by the board of directors for reimbursement. Additionally, the reimbursement of the fees waived under the Conditional Fee Waiver Agreement are subordinate to the reimbursement of the expense support payments, which are described below.

Pursuant to the Advisory Agreement and Sub-Advisory Agreement, we are required to pay or reimburse the Advisers for administrative services expenses, which include all costs and expenses related to the day-to-day administration and management of the Company not related to advisory services. For the years ended December 31, 2014, 2013 and 2012, we incurred, and the Advisers waived the reimbursement of, administrative services expenses of approximately $1.5 million, $1.0 million and $438,000, respectively. The waiver of the reimbursement of administrative service expenses is not subject to future reimbursement.

On November 11, 2013, we entered into an Expense Support and Conditional Reimbursement Agreement (the "2013 Expense Reimbursement Agreement") with the Adviser. Under the 2013 Expense Reimbursement Agreement, until December 31, 2013 or a prior date mutually agreed to by both parties, the Adviser will pay us up to 100% of our operating expenses (the "Expense Support Payment"). Operating expenses are defined as 2013 third party operating costs and expenses incurred by us under generally accepted accounting principles for investment management companies. Any Expense Support Payments paid by the Adviser are subject to conditional reimbursement by us upon a determination by our board of directors that we have achieved a reasonable level of expenses relative to our investment income. Any repayment of Expense Support Payments will be made within a period not to exceed three years from the date each respective Expense Support Payment is determined. Pursuant to the terms of the 2013 Expense Reimbursement Agreement, for the year ended December 31, 2013, the Adviser made an Expense Support Payment of $153,000 to us.

On December 30, 2013, we agreed to an Expense Support and Conditional Reimbursement Agreement with the Adviser, which was subsequently amended on March 31, 2014 and June 30, 2014 (as amended, the "2014 Expense Reimbursement Agreement"). Under the 2014 Expense Reimbursement Agreement, until December 31, 2014, or a prior date mutually agreed to by both parties, the Adviser, at its sole discretion, will pay to us up to 100% of our operating expenses (an "Expense Support Payment") in order to achieve a reasonable level of expenses relative to our investment income (the "Operating Expense Objective"). Under the 2014 Expense Reimbursement Agreement, operating expenses are defined as third party operating costs and expenses incurred by the Company between January 1, 2014, and December 31, 2014, under generally accepted accounting principles for investment management companies. The Board, in its discretion, may approve the repayment of unreimbursed Expense Support Payments (a "Reimbursement Payment") upon a determination by the Board that we have achieved the Operating Expense Objective in any quarter following receipt by us of an Expense Support Payment. Under the 2014 Expense Reimbursement Agreement, any unreimbursed Expense Support Payment may be reimbursed by us within a period not to exceed three years from the date each respective Expense Support Payment was determined, but only after any Expense Support Payment amounts have been reimbursed under the 2013 Expense Reimbursement Agreement. Any Expense Support Payments that remain unreimbursed three years after such payment will be permanently waived. The 2014 Expense Reimbursement Agreement may be terminated by us at any time, and shall automatically terminate upon termination of the Advisory Agreement or upon our liquidation or dissolution.

During the year ended December 31, 2014, we received an Expense Support Payment of$328,000, which the Adviser paid to us on October 30, 2014. The Expense Support Payment from the Adviser of $328,000 may be reimbursed by us within a period not to exceed three years, subject to approval by our board of directors. As discussed above, the reimbursement of this Expense Support Payment from us to the Adviser is only permitted after the reimbursement of the Expense Support Payment of $153,000 that was made in 2013. As of December 31, 2014, none of these amounts have been approved for reimbursement by the Board.

**CRITICAL ACCOUNTING POLICIES**

*Basis of Presentation*

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of our wholly-owned consolidated subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Under the investment company rules and regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating portfolio company investments, including those in which we have a controlling interest, unless the portfolio company is another investment company. An exception to this general principle occurs if we own a controlled operating company whose purpose is to provide services to us such as an investment adviser or transfer agent. None of the investments we have made qualify for this exception. Therefore, our portfolio investments are carried on the balance sheet at fair value, as discussed below, with changes to fair value recognized as “Net Unrealized Appreciation (Depreciation)” on the Consolidated Statements of Operations until the investment is realized, usually upon exit, resulting in any gain or loss on exit being recognized as a realized gain or loss.

*Transactions Between Entities of Common Control*

As discussed above, effective May 31, 2012, HMS Income LLC merged with and into us leaving us, HMS Income Fund, Inc., as the surviving entity. When evaluating the accounting for this transaction, we determined that this was a transaction between entities under common control. Consistent with this determination, we recognized the assets and liabilities transferred from HMS Income LLC at their carrying amounts at the time of the Merger Transaction. We have reported the results of operations and cash flows for the period prior to which the Merger Transaction occurred as though the exchange of equity interests had occurred at the beginning of the period.

*Investment Classification*

We classify our investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, (a) “Control” investments are defined as investments in companies in which the Company owns more than 25% of the voting securities or has rights to nominate greater than 50% of the directors or managers of the entity, (b) “Affiliate” investments are defined as investments in which between 5% and 25% of the voting securities are owned, or an investment in an investment company’s investment adviser, and the investments are not classified as Control investments and (c) “Non-Control/Non-Affiliate” investments are defined as investments that are neither Control investments nor Affiliated investments.

On December 12, 2011, HMS Income LLC acquired interests in 17 investments from Main Street and certain of its affiliates for approximately $16.5 million (the “Purchase Transaction”), as evidenced by an Assignment and Assumption Agreement (the “Assignment Agreement”). Concurrently with the Purchase Transaction, HMS Income LLC and Main Street entered into a Servicing Agreement (the “Servicing Agreement”), pursuant to which Main Street agreed to perform certain services for HMS Income LLC with respect to the investments acquired in the Purchase Transaction. As of December 31, 2014, we owned zero investments with respect to which Main Street continues to provide service pursuant to the Servicing Agreement.

The legal nature of the Purchase Transaction and the intent of both HMS Income LLC and Main Street was to effectuate a sale thereby providing HMS Income LLC with an ownership of undivided interests in the acquired investments. In evaluating the transaction for sale accounting under the Accounting Standards Codification (“Codification” or “ASC”) 860, *Transfers and Servicing (“ASC 860”)*, it was determined that, due to certain provisions within the Servicing Agreement, the investments acquired in the Purchase Transaction represented a secured loan to Main Street. The interest income related to these investments is reported as interest income of Affiliate investments for the period from June 1, 2012 to November 1, 2012 on the Consolidated Statements of Operations.

On November 2, 2012, we and Main Street and its affiliates amended the Assignment Agreement and amended and restated the Servicing Agreement to conform the Assignment Agreement and the Servicing Agreement with the intent of the parties at the time of the consummation of the Purchase Transaction and to account for certain changed facts and circumstances. As a result of the amended Assignment and the amended and restated Servicing Agreement, as of November 2, 2012, the Purchase Transaction was, and, for the subsequent periods thereafter, will continue to be, reported as a sale for accounting purposes under ASC 860 in the financial statements and the related investments have been classified as Non-Control/Non-Affiliate investments.

*Valuation of Portfolio Investments*

We account for our portfolio investments at fair value under the provisions of the Financial Accounting Standards Board ("FASB") ASC 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 requires us to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal market that are independent, knowledgeable, and willing and able to transact.

Our portfolio strategy calls for us to invest primarily in illiquid debt and equity securities issued by private, LMM companies and debt securities issued by Middle Market companies that are generally larger in size than the LMM companies. We categorize some of our investments in LMM companies and Middle Market companies as Private Loan portfolio investments, which are primarily debt securities issued by companies that are consistent in size with either the LMM companies or Middle Market companies, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. The structure, terms and conditions for these Private Loan investments are typically consistent with the structure, terms and conditions for the investments made in our LMM portfolio or Middle Market portfolio. Our portfolio also includes Other Portfolio investments which primarily consist of investments that are not consistent with the typical profiles for our LMM portfolio investments, Middle Market portfolio investments or Private Loan portfolio investments, including investments which may be managed by third parties. Our portfolio investments may be subject to restrictions on resale.

LMM investments and Other Portfolio investments generally have no established trading market while Middle Market securities generally have established markets that are not active. Private Loan investments may include investments which have no established trading market or have established markets that are not active. We determine in good faith the fair value of our Investment Portfolio pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by our Board of Directors and in accordance with the 1940 Act. Our valuation policies and processes are intended to provide a consistent basis for determining the fair value of the portfolio.

For LMM portfolio investments, we generally review external events, including private mergers, sales and acquisitions involving comparable companies, and includes these events in the valuation process by using an enterprise value waterfall ("Waterfall") for our LMM equity investments and an income approach using a yield-to-maturity model ("Yield-to-Maturity") for our LMM debt investments. For Middle Market portfolio investments, we use observable inputs such as quoted prices in the valuation process. We determine the appropriateness of the use of third-party broker quotes, if any, in determining fair value based on our understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer, the depth and consistency of broker quotes and the correlation of changes in broker quotes with underlying performance of the portfolio company and other market indices. We often cannot observe the inputs considered by the third party in determining their quotes. For Middle Market and Private Loan portfolio investments in debt securities for which it has determined that third-party quotes or other independent pricing are not available or appropriate, we generally estimate the fair value based on the assumptions that we believe hypothetical market participants would use to value the investment in a current hypothetical sale using the Yield-to-Maturity valuation method. For our Other Portfolio equity investments, we generally calculate the fair value of the investment primarily based on the net asset value ("NAV") of the fund. All of the valuation approaches for our portfolio investments estimate the value of the investment as if we were to sell, or exit, the investment as of the measurement date.

Under the Waterfall valuation method, we estimate the enterprise value of a portfolio company using a combination of market and income approaches or other appropriate valuation methods, such as considering recent transactions in the equity securities of the portfolio company or third-party valuations of the portfolio company, and then perform a waterfall calculation by using the enterprise value over the portfolio company's securities in order of their preference relative to one another. The enterprise value is the fair value at which an enterprise could be sold in a transaction between two willing parties, other than through a forced or liquidation sale. Typically, private companies are bought and sold based on multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), cash flows, net income, revenues, or in limited cases, book value. There is no single methodology for estimating enterprise value. For any one portfolio company, enterprise value is generally described as a range of values from which a single estimate of enterprise value is derived. In estimating the enterprise value of a portfolio company, we analyze various factors including the portfolio company's historical and projected financial results. The operating results of a portfolio company may include unaudited, projected, budgeted or pro forma financial information and may require adjustments for non-recurring items or to normalize the operating results that may require significant judgment in its determination. In addition, projecting future financial results requires significant judgment regarding future growth assumptions. In evaluating the operating results, we also analyze the impact of exposure to litigation, loss of customers or other contingencies. After determining the appropriate enterprise value, we allocate the enterprise value to investments in order of the legal priority of the various components of the portfolio company's capital structure. In applying the Waterfall valuation method, we assume the loans are paid off at the principal amount in a change in control transaction and are not assumed by the buyer, which we believe is consistent with our past transaction history and standard industry practices.

Under the Yield-to-Maturity valuation method, we also use the income approach to determine the fair value of debt securities based on projections of the discounted future free cash flows that the debt security will likely generate, including analyzing the discounted cash flows of interest and principal amounts for the debt security, as set forth in the associated loan agreements, as well as the financial position and credit risk of the portfolio investments. We estimate the expected repayment date of our debt securities is generally the legal maturity date of the instrument, as we generally intend to hold our loans and debt securities to maturity. The Yield-to-Maturity analysis also considers changes in leverage levels, credit quality, portfolio company performance and other factors. We will generally use the value determined by the Yield-to-Maturity analysis as the fair value for that security. However, it is our position that assuming a borrower is outperforming underwriting expectations and because these respective investments do not generally contain pre-payment penalties, the borrower would most likely prepay or refinance the borrowing if the market interest rate, given the borrower's credit quality, is lower than the stated loan interest rate. Therefore, we do not believe that a market participant would pay a premium for the investment, and because of our general intent to hold its loans to maturity, we generally do not believe that the fair value of the investment should be adjusted in excess of the face amount. A change in the assumptions that we use to estimate the fair value of our debt securities using the Yield-to-Maturity valuation method could have a material impact on the determination of fair value. If there is deterioration in credit quality or if a debt security is in workout status, we may consider other factors in determining the fair value of the debt security, including the value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would most likely be received in a liquidation analysis.

Under the NAV valuation method, for an investment in an investment fund that does not have a readily determinable fair value, we measure the fair value of the investment predominately based on the NAV of the investment fund as of the measurement date. However, in determining the fair value of the investment, we may consider whether adjustments to the NAV are necessary in certain circumstances, based on the analysis of any restrictions on redemption of our investment as of the measurement date, recent actual sales or redemptions of interests in the investment fund, and expected future cash flows available to equity holders, including the rate of return on those cash flows compared to an implied market return on equity required by market participants, or other uncertainties surrounding our ability to realize the full NAV of our interests in the investment fund.

Pursuant to our internal valuation process and the requirements under the 1940 Act, we perform valuation procedures on our investments in each LMM portfolio company once a quarter. In addition to our internal valuation process, in arriving at estimates of fair value for our investments in our LMM portfolio companies, we, among other things, consult with a nationally recognized independent advisor. The nationally recognized independent advisor is generally consulted relative to the our investments in each LMM portfolio company at least once in every calendar year, and for our investments in new LMM portfolio companies, at least once in the twelve-month period subsequent to the initial investment. In certain instances, we may determine that it is not cost-effective, and as a result is not in our stockholders' best interest, to consult with the nationally recognized independent advisor on our investments in one or more LMM portfolio companies. Such instances include, but are not limited to, situations where the fair value of the our investment in a LMM portfolio company is determined to be insignificant relative to the total Investment Portfolio. We consulted with our independent advisor in arriving at our determination of fair value on our investments in a total of two LMM portfolio companies for the year endedDecember 31, 2014, representing approximately 8.2% of the total LMM portfolio at fair value as ofDecember 31, 2014 and on a total of zero LMM portfolio companies for the year endedDecember 31, 2013, representing approximately 0.0% of the total LMM portfolio at fair value as ofDecember 31, 2013.

Due to the inherent uncertainty in the valuation process, our estimate of fair value may differ materially from the values that would have been used had an active market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the gains or losses ultimately realized on these investments to be materially different than the valuations currently assigned. We estimate the fair value of each individual investment and record changes in fair value as unrealized appreciation or depreciation in the Statements of Operations.

*Interest Income*

Interest income is recorded on the accrual basis to the extent amounts are expected to be collected. Prepayment penalties received by us are recorded as income upon receipt. Accrued interest is evaluated for collectability. When a debt security becomes 90 days or more past due and we do not expect the debtor to be able to service all of its debt or other obligations, the debt security will generally be placed on non-accrual status, and we will cease recognizing interest income on that debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. Additionally, if a debt security has deferred interest payment terms and we become aware of a deterioration in the credit quality, we will evaluate the collectability of the deferred interest payment. If it is determined that the deferred interest in unlikely to be collected, we will place the security on non-accrual status and cease recognizing interest income on that debt security until the borrower has demonstrated the ability and intent to pay the contractual amounts due. If a debt security's status significantly improves with respect to the debtor's ability to service the debt or other obligations, or if a debt security is fully impaired, sold or written off, it will be removed from non-accrual status. As of December 31, 2014 and December 31, 2013, we did not have any investments that were more than 90 days past due. As of December 31, 2014 and December 31, 2013, we had two and zero investments, respectively on non-accrual status. The investments on non-accrual status as of December 31, 2014 represent two loans to one portfolio company, which experienced a significant decline in credit quality raising doubt around our ability to collect the principal and interest contractually due. All interest due under these investments was deferred, with no current interest payments required to be made. Given the credit deterioration, no interest income has been recognized on these investments during the year ended December 31, 2014. Aside from these two investments on non-accrual status as of December 31, 2014, we are not aware of any material changes to the creditworthiness of the borrowers underlying its debt investments.

From time to time, we may hold debt instruments in our investment portfolio that contain a payment-in-kind ("PIK") interest provision. If these borrowers elect to pay or are obligated to pay interest under the optional PIK provision, and if deemed collectible in our judgment, then the interest would be computed at the contractual rate specified in the investment's credit agreement, recorded as interest income and periodically added to the principal balance of the investment. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. As of December 31, 2014 and 2013 we held four and zero investments, respectively, which contained a PIK provision. As discussed above, two of the four investments with PIK payment provisions, as of December 31, 2014, were on non-accrual status and no PIK income has been recorded on these investments during the year ended December 31, 2014. For the years ended December 31, 2014, 2013 and 2012, we capitalized $274,000, $80,000 and $25,000, respectively, of PIK interest income.

*Unearned Income – Original Issue Discount / Premium to Par Value*

We purchased some of our debt investments for an amount different than their respective principal values. For purchases at less than par value a discount is recorded at acquisition, which is accreted into interest income based on the effective interest method over the life of the debt investment. For investments purchased at greater than par value, a premium is recorded at acquisition, which is amortized as a reduction to interest income based on the effective interest method over the life of the investment. Upon repayment or sale, any unamortized discount or premium is also recognized into interest income. For the years ended December 31, 2014, 2013 and 2012, we accreted approximately a net $1.1 million, $194,000 and $146,000 respectively, into interest income.

*Organizational and Offering Costs*

In accordance with the Advisory Agreement and the Sub-Advisory Agreement, we will reimburse the Adviser and Sub-Adviser for any organizational expenses and Offering costs that are paid on our behalf, which consist of, among other costs, expenses of our organization, actual legal, accounting, bona fide out-of-pocket itemized and detailed due diligence costs, printing, filing fees, transfer agent costs, postage, escrow fees, data processing fees, advertising and sales literature and other Offering-related costs. Pursuant to the terms of the Advisory Agreement and Sub-Advisory Agreement, the Advisers are responsible for the payment of Offering costs to the extent they exceed 1.5% of the aggregate gross proceeds from the Offering.

As of December 31, 2014 and December 31, 2013, the Adviser and Sub-Adviser incurred approximately $6.8 million and $4.3 million, respectively, of Offering costs on the Company's behalf. Upon the execution of the Advisory Agreement and Sub-Advisory Agreement, on May 31, 2012, we recorded a due to affiliates liability and capitalized the deferred Offering costs as it is expected that aggregate gross proceeds from the Offering will be in an amount that will require us to reimburse the Advisers for these costs. As of December 31, 2014, the balance of the due to affiliate liability related to organizational and Offering costs was $2.4 million. On a regular basis, management reviews capital raise projections to evaluate the likelihood of the capital raise reaching a level that would require us to reimburse the Adviser for the offering costs incurred on the Company's behalf. Based on the $6.8 million of offering costs incurred by the Adviser through December 31, 2014, we would have to raise approximately $453.3 million to be obligated to reimburse the Adviser for all of these costs. Commencing with our initial closing, which occurred on September 17, 2012, and continuing with every closing thereafter, 1.5% of the proceeds of such closings will be amortized as a charge to additional paid in capital and a reduction of deferred Offering costs, until such asset is fully amortized. From inception through December 31, 2014, approximately $4.4 million has been amortized. We expect to reimburse the Advisers for such costs incurred on our behalf on a monthly basis up to a maximum aggregate amount of 1.5% of the gross Offering proceeds. Pursuant to the terms of the Advisory Agreement and Sub-Advisory Agreement, the Adviser and Sub-Adviser will be responsible for the payment of organizational and Offering expenses to the extent they exceed 1.5% of gross proceeds from the Offering.

**PORTFOLIO INVESTMENT COMPOSITION**

Our private placement portfolio investments primarily consist of direct or secondary purchases of interest-bearing debt securities in companies that are generally larger in size than the LMM companies included in our LMM portfolio. While our privately placed portfolio debt investments are generally secured by a first priority lien, 18.5% of our investments are secured by second priority liens.

Our current LMM portfolio consists of secured debt investments, of which67.9% and 2.9% are secured by first and second liens, respectively, on the assets of the portfolio companies and 29.2% are equity investments, in privately held, LMM companies. The LMM debt investments generally bear interest at fixed rates and generally mature between five and seven years from the original investment date. However, since we purchased some of these investments subsequent to their original investment dates, the maturities range from approximately one to five years. The LMM equity investments represent an equity position or the right to acquire an equity position through warrants.

Our Private Loan portfolio primarily consists of investments in interest-bearing debt securities in companies that are consistent with the size of companies in our LMM portfolio or our private placement portfolio, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. Our Private Loan portfolio consists of secured debt investments, of which 74.9% are secured by first priority liens on the assets of the portfolio companies and typically have a term of between three and seven years from the original investment date.

Our Other Portfolio investments primarily consist of investments which are not consistent with the typical profiles for LMM, private placement and Private Loan portfolio investments, including investments which may be managed by third parties. In the Other Portfolio investments, we may incur indirect fees and expenses in connection with investments managed by third parties, such as investments in other investment companies or private funds.

During the year ended December 31, 2014, we funded investment purchases of approximately$477.5 million and had eleven investments under contract to purchase as of December 31, 2014, for approximately $50.5 million, which settled or are scheduled to settle afterDecember 31, 2014. We also received proceeds from sales and repayments of existing portfolio investments of approximately $96.3 million including $32.9 million in full prepayment and $58.9 million in sales. Additionally, we had three investments under contract to sell as of December 31, 2014, for approximately $3.0 million, which represents the contract sales price. The combined result of which increased our portfolio, on a cost basis, by approximately $421.2 million, or 634.2%, and the number of portfolio investments by43, or 65%, compared to the portfolio as of December 31, 2013. As of December 31, 2014, the largest investment in an individual portfolio company represented approximately2.1% of our portfolio's fair value with the remaining investments ranging from 0.01% to 2.0%. The average investment in our portfolio is approximately$4.3 million or 0.9% of the total portfolio. As a result of the aforementioned transactions our portfolio has become increasingly diversified across individual portfolio investments, geographic regions, and industries. Further, our portfolio investment composition is comprised of 79.1% first lien debt securities,18.0% second lien debt securities, with the remainder in unsecured debt investments and equity investments. First lien debt securities have priority over subordinated or other unsecured debt owed by the issuer with respect to the collateral pledged as security for the loan. Due to the priority of first lien investments, these generally have lower yields than lower priority, less secured investments.

During the year ended December 31, 2013, we made investment purchases of approximately$57.9 million and had 9 investments under contract to purchase as of December 31, 2013 for approximately $8.8 million, which settled after December 31, 2013 . We also received proceeds from sales and repayments of existing portfolio investments of approximately $16.6 million including $7.1 million in full repayment and $7.7 million in sales and had no investments under contract to sell as ofDecember 31, 2013.

See "— Portfolio Asset Quality" for further discussion of the investment rating system. The result of the aforementioned transactions further diversified our geographic and industry concentrations and based upon our investment rating system, the weighted average rating of our LMM was approximately 3.0 and 1.5 as of December 31, 2014 and 2013, respectively. Lastly, the overall weighted average effective yield on our investment portfolio has increased from7.5% at December 31, 2013 to 8.1% as of December 31, 2014.

Summaries of the composition of our total investment portfolio at cost and fair value are shown in the following tables (this information excludes Other Portfolio investments):

| | December 31, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Cost: | LMM | Private Loan | Private Placement | Total | LMM | Private Loan | Private Placement | Total |
| First Lien Secured Debt | 67.9% | 76.2% | 80.8% | 79.4% | 100.0% | 100.0% | 96.2% | 96.3% |
| Second Lien Secured Debt | 2.9% | 23.8% | 18.6% | 18.1% | —% | —% | 3.8% | 3.7% |
| Equity | 29.0% | —% | —% | 2.0% | —% | —% | —% | —% |
| Equity warrants | 0.2% | —% | —% | —% | —% | —% | —% | —% |
| Unsecured Debt | —% | —% | 0.6% | 0.5% | 100.0% | —% | —% | —% |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

| | December 31, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Fair Value: | LMM | Private Loan | Private Placement | Total | LMM | Private Loan | Private Placement | Total |
| First Lien Secured Debt | 67.9% | 74.9% | 80.9% | 79.4% | 100.0% | 100.0% | 96.2% | 96.3% |
| Second Lien Secured Debt | 2.9% | 25.1% | 18.5% | 18.0% | —% | —% | 3.8% | 3.7% |
| Equity | 29.0% | —% | —% | 2.1% | —% | —% | —% | —% |
| Equity warrants | 0.2% | —% | —% | —% | —% | —% | —% | —% |
| Unsecured Debt | —% | —% | 0.6% | 0.5% | 100.0% | —% | —% | —% |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

The following tables show our total investment portfolio composition by geographic region of the Unites States at cost and fair value as a percentage of the total portfolio. The geographic composition is determined by the location of the corporate headquarters of the portfolio company (dollars in thousands) (since the Other Portfolio investment does not represent a single geographic region, this information excludes Other Portfolio investments):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Investments at Cost | Cost Percentage of Total Portfolio | Investments at Fair Value | Fair Value Percentage of Total Portfolio |
| Northeast | $ 128,556 | 26.5% | $ 127,734 | 27.0% |
| Southeast | 116,737 | 24.0% | 116,803 | 24.7% |
| West | 77,402 | 15.9% | 73,993 | 15.7% |
| Southwest | 85,291 | 17.5% | 77,183 | 16.3% |
| Midwest | 57,270 | 11.8% | 56,970 | 12.1% |
| Non-United States | 20,773 | 4.3% | $ 19,604 | 4.2% |
| Total | $ 486,029 | 100.0% | $ 472,287 | 100.0% |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Investments at Cost | Cost Percentage of Total Portfolio | Investments at Fair Value | Fair Value Percentage of Total Portfolio |
| Northeast | $ 20,459 | 30.8% | $ 20,611 | 30.8% |
| Southeast | 11,674 | 17.6% | 11,771 | 17.6% |
| West | 9,254 | 13.9% | 9,358 | 14.0% |
| Southwest | 9,545 | 14.4% | 9,645 | 14.4% |
| Midwest | 11,569 | 17.4% | 11,575 | 17.3% |
| Non-United States | 3,909 | 5.9% | 3,922 | 5.9% |
| Total | $ 66,410 | 100.0% | $ 66,882 | 100.0% |

The following tables show our total investment portfolio composition of portfolio investments by industry at cost and fair value (since the Other Portfolio investment does not represent a single industry, this information excludes Other Portfolio investments ).

| | Cost | | Fair Value | |
|---|---|---|---|---|
| | **December 31, 2014** | **December 31, 2013** | **December 31, 2014** | **December 31, 2013** |
| Media | 9.4 % | 6.7 % | 9.2 % | 6.7 % |
| Hotels, Restaurants, and Leisure | 7.5 % | 5.4 % | 7.6 % | 5.4 % |
| IT Services | 7.1 % | 11.2 % | 7.1 % | 11.3 % |
| Food Products | 5.1 % | 1.5 % | 5.1 % | 1.4 % |
| Oil, Gas, and Consumable Fuels | 5.6 % | 4.7 % | 4.7 % | 4.7 % |
| Diversified Consumer Services | 4.5 % | 4.1 % | 4.6 % | 4.1 % |
| Auto Components | 3.8 % | 2.2 % | 3.9 % | 2.2 % |
| Health Care Providers and Services | 3.7 % | 5.6 % | 3.8 % | 5.6 % |
| Software | 3.7 % | 3.7 % | 3.8 % | 3.7 % |
| Construction and Engineering | 3.5 % | — % | 3.7 % | — % |
| Chemicals | 3.0 % | 1.9 % | 3.1 % | 1.9 % |
| Machinery | 3.0 % | — % | 3.1 % | — % |
| Internet Software and Services | 2.9 % | 5.9 % | 3.0 % | 5.9 % |
| Electronic Equipment, Instruments & Components | 2.6 % | 3.0 % | 2.7 % | 3.0 % |
| Energy Equipment and Services | 3.3 % | 3.7 % | 2.7 % | 3.8 % |
| Specialty Retail | 2.5 % | 6.6 % | 2.4 % | 6.6 % |
| Commercial Services and Supplies | 2.3 % | 2.9 % | 2.3 % | 2.9 % |
| Textiles, Apparel, & Luxury Goods | 2.1 % | 4.0 % | 2.2 % | 4.0 % |
| Pharmaceuticals | 2.1 % | — % | 2.2 % | — % |
| Tobacco | 1.7 % | — % | 1.8 % | — % |
| Marine | 1.6 % | — % | 1.7 % | — % |
| Leisure Equipment and Products | 1.6 % | 2.2 % | 1.6 % | 2.2 % |
| Metals and Mining | 1.6 % | 1.4 % | 1.6 % | 1.3 % |
| Distributors | 1.6 % | — % | 1.6 % | — % |
| Household Products | 1.6 % | — % | 1.6 % | — % |
| Internet and Catalog Retail | 1.5 % | 2.2 % | 1.5 % | 2.2 % |
| Aerospace and Defense | 1.4 % | 1.7 % | 1.4 % | 1.7 % |
| Health Care Equipment and Supplies | 1.4 % | 1.5 % | 1.4 % | 1.5 % |
| Diversified Telecommunication Services | 1.4 % | — % | 1.4 % | — % |
| Insurance | 1.3 % | — % | 1.4 % | — % |
| Automobiles | 1.2 % | — % | 1.3 % | — % |
| Professional Services | 1.2 % | 2.8 % | 1.2 % | 2.7 % |
| Healthcare Technology | 1.0 % | — % | 1.0 % | — % |
| Air Freight & Logistics | 0.6 % | — % | 0.7 % | — % |
| Containers and Packaging | 0.5 % | — % | 0.5 % | — % |
| Consumer Finance | 0.5 % | — % | 0.5 % | — % |
| Life Sciences Tools and Services | 0.3 % | 2.2 % | 0.3 % | 2.2 % |
| Electric Utilities | 0.3 % | 1.3 % | 0.3 % | 1.3 % |
| Advertising | — % | 1.0 % | — % | 1.1 % |
| Communications Equipment | — % | 1.3 % | — % | 1.3 % |
| Electrical Equipment | — % | 2.2 % | — % | 2.2 % |
| Food & Staples Retailing | — % | 1.5 % | — % | 1.5 % |
| Restaurants | — % | 2.3 % | — % | 2.3 % |
| Thrifts & Mortgage Finance | — % | 1.1 % | — % | 1.1 % |
| Data Processing and Outsourced Services | — % | 2.2 % | — % | 2.2 % |
| **Total** | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

Our portfolio investments carry a number of risks including, but not limited to: (1) investing in companies which may have limited operating histories and financial resources; (2) holding investments that generally are not publicly traded and which may be subject to legal and other restrictions on resale; and (3) other risks common to investing in below investment grade debt in LMM and middle market companies.

**PORTFOLIO ASSET QUALITY**

As of December 31, 2014, we owned a diversified portfolio of 109 investments in 96 companies representing a wide range of industries. We believe that this diversity adds to the structural protection of the portfolio, revenue sources, income, cash flows and dividends. The portfolio included the following:

- 77 debt investments in 75 private-placement portfolio companies with an aggregate fair value of approximately $391.0 million and a cost basis of approximately $402.9 million. The private placement portfolio had a weighted average annual effective yield of approximately 8.0% and 80.9% of the investments were secured by first priority liens. Further, 88.8% of the private placement investments contain variable rates, though a majority of the investments with variable rates are subject to contractual minimum base interest rates between 100 and 150 basis points.

- 11 debt investments in 9 Private Loan portfolio companies with an aggregate fair value of approximately $47.7 million and a cost basis of approximately $49.5 million. The Private Loan portfolio had a weighted average annual effective yield of approximately 9.7%, which is calculated assuming the investments on non-accrual status are non-yielding, and 74.9% of the Private Loan investments were secured by first priority liens. Further, 70.5% of the Private Loan investments contain variable rates, though a majority of the investments with variable rates are subject to contractual minimum base interest rates between 100 and 150 basis points.

- 11 debt investments in 11 LMM portfolio companies with an aggregate fair value and cost basis of approximately $23.8 million. The LMM debt investments had a weighted average annual effective yield of approximately 11.3% and 95.9% of the debt investments were secured by first priority liens. Further, 59.9% of the LMM debt investments are fixed rate investments with fixed interest rates between 9.00% to 12.00%. Two LMM debt investments, representing approximately 40.1% of the LMM debt investments, have variable interest rate subject to a contractual minimum base interest rate of 100 basis points.

- 8 equity investments and 2 equity warrant investments in 8 LMM portfolio companies and 1 Other portfolio company with an aggregate fair value and cost basis of approximately $11.4 million.

Overall, our investment portfolio had a weighted average effective yield of approximately 8.1%, and 79.1% of the investments were secured by first-priority liens.

As of December 31, 2014, none of our investments were in default. As of December 31, 2014, we had two investments, in one portfolio company, on non-accrual status which comprised approximately 0.4% of the total Investment Portfolio at fair value and 0.8% of the total Investment Portfolio at cost. This borrower went into default in January of 2015. As of December 31, 2013, none of our investments were in default. For those investments in which S&P credit ratings are available, approximately 58.7% of the portfolio, the portfolio had a weighted average effective credit rating of B.

We utilize a rating system developed by our Sub-Adviser to rate the performance of each LMM portfolio company. The investment rating system takes into consideration various factors, including, but not limited to, each investment's expected level of returns, collectability, comparisons to competitors and other industry participants, and the portfolio company's future outlook.

- Investment Rating 1 represents a LMM portfolio company that is performing in a manner which significantly exceeds expectations.
- Investment Rating 2 represents a LMM portfolio company that, in general, is performing above expectations.
- Investment Rating 3 represents a LMM portfolio company that is generally performing in accordance with expectations. All new LMM portfolio investments receive an initial Investment Rating 3.
- Investment Rating 4 represents a LMM portfolio company that is underperforming expectations, requiring increased monitoring and scrutiny by us.

- Investment Rating 5 represents a LMM portfolio company that is significantly underperforming, requiring heightened levels of monitoring and scrutiny by us and involves the recognition of significant unrealized depreciation on such investment.

The following table shows the distribution of our LMM portfolio investments on the 1 to 5 investment rating scale at fair value as of December 31, 2014 and December 31, 2013 (dollars in thousands):

| Investment Rating | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| 1 | $ — | —% | $ 750 | 50.0% |
| 2 | 750 | 2.2% | 750 | 50.0% |
| 3 | 31,996 | 95.2% | — | —% |
| 4 | 870 | 2.6% | — | —% |
| 5 | — | — | — | —% |
| **Totals** | **$ 33,616** | **100.0%** | **$ 1,500** | **100.0%** |

Based upon the investment rating system, the weighted average rating of our LMM portfolio at fair value as of December 31, 2014 and December 31, 2013, was approximately 3.0 and 1.5, respectively.

## DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

### *RESULTS COMPARISONS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013*

#### *Total Investment Income, Operating Expenses, Net Assets*

For the years ended December 31, 2014 and 2013, our total investment income was approximately $19.2 million and $2.8 million, respectively, consisting predominately of interest income. As of December 31, 2014 the portfolio had a weighted average annual effective yield on investments of approximately 8.1% compared to 7.5% as of December 31, 2013, and our average investment portfolio for the year ended December 31, 2014 was $258.9 million compared to $33.7 million for the year ended December 31, 2013. Additionally, during the years ended December 31, 2014 and 2013, we accreted approximately $1.1 million and $194,000, respectively, of unearned income into interest income. The increase in interest income is primarily due to the growth in our total portfolio resulting from the investment of additional equity capital raised and borrowings under our Syndicated Credit Facility and HMS Funding Facility. We expect further increases in investment income in future periods due to (i) a growing base of portfolio company investments, and (ii) investments being held for the entire period relative to incremental net investment activity during each quarter. The increase in yield is largely due to the additional investments in LMM and Private Loan companies during the year, which are higher yielding than the private placement investments.

For the year ended December 31, 2014, expenses, net of base management fee, incentive fee and administrative services expenses waivers and expense support payment, were approximately $8.0 million as compared to expenses of approximately $1.1 million for the year ended December 31, 2013. The increase in expenses is primarily due to an increases in management fees (net of fee waivers) of $3.8 million, interest expense of $2.9 million, professional fees expense of $117,000, other general and administrative expense of $355,000. Interest expense increased due to an increase in the average borrowings during the period. Average borrowings were $89.8 million for the year ended December 31, 2014 compared to $9.7 million for the year ended December 31, 2013. Additionally, interest expense was higher for the year ended December 31, 2014, due to the increase in amortization of deferred financing costs as a result of costs paid in connection with the Syndicated Credit Facility and the HMS Funding Facility. As of December 31, 2014 and December 31, 2013, the interest rate on borrowings was approximately 3%. Professional fees increased due to additional legal costs related to the share repurchase program and the application for exemptive relief. Other general and administrative expenses increased due to additional banking costs, trade costs and other costs associated with the increase in the overall portfolio size. During the year, we entered into an expense support and conditional reimbursement agreement with our Adviser, in which the Adviser agreed to pay us an amount necessary to achieve a reasonable level of expenses in relation to investment income. Pursuant to this agreement, the Adviser made a payment to us during year ended December 31, 2014 for $328,000, reducing our expenses, compared to an expense support payment of $153,000 made to us during the year ended December 31, 2013.

During the year ended December 31, 2013, all management and incentive fees were waived. Beginning January 1, 2014, our Sub-Adviser no longer waived its fees, except the subordinated incentive fee on income for the period October 1, 2014 to December 31, 2104, totaling approximately $226,000, which the Sub-Adviser has agreed to waive. The Adviser waived its fees in 2014 in an amount necessary for distributions declared to not represent a return of capital for federal tax purposes. For the year ended December 31, 2014, the base management and incentive fees, net of fee waivers, were approximately $3.8 million compared to a net fee of zero for the year ended December 31, 2013.

For the year ended December 31, 2014, the net decrease in net assets resulting from operations (gross of stockholder distributions declared) was approximately $3.0 million. The decrease was attributable to net investment income of approximately $11.2 million, realized gains of approximately $20,000, and offset unrealized depreciation on investments of approximately $14.2 million. The unrealized depreciation on investments in our portfolio was primarily driven by the decline in the fair value of two investments, in one portfolio company, which went into default after December 31, 2014, and the recent impact of broad price declines in the high yield bond and leveraged loan markets and the effect of declining oil prices on our investments in companies in the oil and gas sector. While these macroeconomic events have impacted our investment valuations, management believes that these valuation declines are generally not indicative of a decline in credit quality.

For the year ended December 31, 2013, the net increase in net assets was approximately $2.2 million. The increase was primarily attributable to net investment income of approximately $1.7 million, realized gains of approximately $27,000 and unrealized appreciation on investments of approximately $421,000.

### *RESULTS COMPARISONS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012*

#### *Total Investment Income, Operating Expenses, Net Assets*

For the years ended December 31, 2013 and 2012, our total investment income was approximately $2.8 million and $1.9 million, respectively, consisting predominately of interest income. As of December 31, 2013, the portfolio had a weighted average annual effective yield on investments of approximately 7.5% compared to 9.9% as of December 31, 2012, and our average investment portfolio for the year ended December 31, 2013 was $33.7 million compared to $16.4 million for the year ended December 31, 2012. The increase in interest income is primarily due to the growth in our total portfolio resulting from the investment of additional equity capital raised and borrowings under our Syndicated Credit Facility offset by the decline in the effective yield on investments. The decline in yield is largely due to the repayment of four LMM investments in 2013, which are higher yielding than the private placement investments. The decline in yield is also attributable to an overall lower interest rate environment. Additionally, during the year ended December 31, 2013, we recognized $80,000 of PIK interest income compared to $25,000 for the same period in 2012. This increase is largely due to an investment which had a technical default during the period, resulting in additional PIK interest being earned. This investment was sold in the fourth quarter of 2013.

For the year ended December 31, 2013, expenses, net of base management fee, incentive fee and administrative services expenses waivers and expense support payment, were approximately $1.1 million as compared to expenses of approximately $739,000 for the year ended December 31, 2012. The increase in expenses is primarily due to an increase in interest expense of $103,000, professional fees expense of $160,000, other general and administrative expense of $126,000. Interest expense increased due to an increase in the average borrowings during the period. Average borrowings were $9.7 million for the year ended December 31, 2013 compared to $7.2 million for the year ended December 31, 2012. As of December 31, 2013 and December 31, 2012, the interest rate on borrowings was approximately 3%. The average borrowing rate for the year ended December 31, 2012 was LIBOR plus 2.85% compared to the borrowing rate in effect for the year ended December 31, 2013 of LIBOR plus 2.75%. Professional fees increased due to additional legal costs related to the share repurchase program and the application for exemptive relief. Other general and administrative expenses increased due to additional banking costs, trade costs and other costs associated with the increase in the overall portfolio size. During the year ended December 31, 2013, we entered into an expense support and conditional reimbursement agreement with our Adviser, in which the Adviser agreed to pay us an amount necessary to achieve a reasonable level of expenses in relation to investment income. Pursuant to this agreement, the Adviser made a payment to us for $153,000, reducing our expenses. The Adviser did not make an expense support payment in 2012.

For the year ended December 31, 2013, the net increase in net assets resulting from operations (gross of stockholder distributions declared) was approximately $2.2 million. The increase was attributable to net investment income of approximately $1.7 million, realized gains of approximately $27,000, and unrealized appreciation on investments of approximately $421,000.

For the year ended December 31, 2012, the net increase in net assets was approximately $1.2 million. The increase was primarily attributable to net investment income of approximately $1.1 million, realized gains of approximately $14,000 and unrealized appreciation on investments of approximately $87,000.

***RESULTS COMPARISONS FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012***

***Liquidity and Capital Resources***

*Cash Flows*

For the year ended December 31, 2014, we experienced a net increase in cash and cash equivalents of approximately $13.5 million. During that period, approximately $365.3 million of cash was used in our operating activities, which principally consisted of a net decrease in net assets resulting from operations of approximately $3.0 million and the repayment of portfolio debt investments of $96.3 million, offset by the purchase of new portfolio debt investments of $477.5 million. During the year ended December 31, 2014, approximately $378.8 million was generated from financing activities, which principally consisted of a net $168.9 million increase in borrowings under the Syndicated Credit Facility and HMS Funding Facility, and $217.9 million in net Offering proceeds received, offset by $5.1 million in cash distributions paid to stockholders and $2.7 million paid for financing costs related to the Syndicated Credit Facility amendment and HMS Funding Facility entered into during the year ended December 31, 2014.

For the year ended December 31, 2013, we experienced a net increase in cash and cash equivalents of approximately $4.5 million. During that period, approximately $36.5 million of cash was used in our operating activities, which principally consisted of a net increase in net assets resulting from operations of approximately $2.2 million and the repayment of portfolio debt investments of $16.6 million, offset by the purchase of new portfolio debt investments of $57.9 million. During the year ended December 31, 2013, approximately $41.0 million was generated from from financing activities, which principally consisted of a net $7.0 million increase in borrowings under the Syndicated Credit Facility and $35.3 million in net Offering proceeds received, offset by and $1.2 million in cash distributions paid to stockholders.

For the year ended December 31, 2012, we experienced a net increase in cash and cash equivalents of approximately $890,000. During that period, approximately $1.3 million of cash was generated from our operating activities, which principally consisted of a net increase in net assets resulting from operations of approximately $1.2 million and the repayment of portfolio debt investments of $9.7 million, offset by the purchase of new portfolio debt investments of $9.1 million. During the year ended December 31, 2012, approximately $384,000 was used in in financing activities, which principally consisted of a net $500,000 decrease in borrowings, $1.3 million in net Offering proceeds received, and $1.0 million in cash distributions paid to stockholders.

*Initial Offering*

During the year ended December 31, 2014, we raised proceeds of $253.1 million from the Offering, including proceeds from the distribution reinvestment plan, and made payments of $23.0 million for selling commissions and dealer manager fees. We also incurred an obligation for $3.8 million of Offering costs related to the Offering.

During the year ended December 31, 2013, we raised proceeds of $40.7 million from the Offering, including proceeds from the distribution reinvestment plan, and made payments of $3.7 million for selling commissions and dealer manager fees. We also incurred an obligation for $610,000 of Offering costs related to the Offering.

During the year ended December 31, 2012, we raised proceeds of $1.4 million from the Offering, including proceeds from the distribution reinvestment plan, and made payments of $109,000 for selling commissions and dealer manager fees. We also incurred an obligation for $21,000 of Offering costs related to the Offering.

*Distributions*

The following table reflects the cash distributions per share that the Company has declared on its common stock during the year ended December 31, 2014 (in thousands except per share amounts).

| | Distributions | |
|---|---|---|
| For the Period Ended | Per Share | Amount |
| Three months ended December 31, 2014 | $ 0.18 | $ 4,658 |
| Three months ended September 30, 2014 | $ 0.17 | $ 3,234 |
| Three months ended June 30, 2014 | $ 0.18 | $ 2,049 |
| Three months ended March 31, 2014 | $ 0.17 | $ 1,276 |

The following table reflects the cash distributions per share that the Company has declared on its common stock during the year ended December 31, 2013 (in thousands except per share amounts).

| | Distributions | |
|---|---|---|
| For the Period Ended | Per Share | Amount |
| Three months ended December 31, 2013 | $ 0.18 | $ 743 |
| Three months ended September 30, 2013 | $ 0.17 | $ 513 |
| Three months ended June 30, 2013 | $ 0.18 | $ 356 |
| Three months ended March 31, 2013 | $ 0.17 | $ 243 |

The following table reflects the cash distributions per share that the Company has declared on its common stock during the year ended December 31, 2012 (in thousands except per share amounts).

| | Distributions | |
|---|---|---|
| For the Period Ended | Per Share | Amount |
| Three months ended December 31, 2012 | $ 0.17 | $ 217 |
| Three months ended September 30, 2012 | $ 0.18 | $ 199 |
| One month ended June 30, 2012 | $ 0.06 | $ 65 |
| Five months ended May 31, 2012 | $ 0.53 | $ 600 |

On December 18, 2014, with the authorization of the Company's board of directors, the Company declared distributions to its stockholders for the period of January 2015 through March 2015. These distributions have been, or will be, calculated based on stockholders of record each day from January 1, 2015 through March 31, 2015 in an amount equal to $0.00191781 per share, per day (which represents an annualized distribution yield of 7% based on the Company's initial public offering price of $10.00 per share, and an annualized distribution yield of 7.18% based on the Company's current offering price of $9.75 per share, if it were maintained every day for a twelve-month period). Distributions are paid on the first business day following the completion of each month to which they relate.

The following table reflects the stock dividend per share that we declared on our common stock through December 31, 2012:

| Date Declared | Record Date | Dividend Date | Dividend Percentage | Shares Issued |
|---|---|---|---|---|
| September 13, 2012 | September 13, 2012 | September 14, 2012 | 2.25% | 25,274 |

The purpose of this stock dividend was for the Company to maintain a net asset value per share that was below the then-current offering price, after deducting selling commissions and dealer manager fees, as required by the 1940 Act, subject to certain limited exceptions. Our board of directors determined that our portfolio performance sufficiently warranted taking this action.

The stock dividend increased the number of shares of common stock outstanding, thereby reducing our net asset value per share. However, because the stock dividend was payable to all stockholders as of the applicable record date in proportion to their holdings as of such date, the reduction in net asset value per share as a result of the stock dividend was offset exactly by the increase in the number of shares of common stock owned by each stockholder. Also, as the stock dividend did not change any stockholder's proportionate interest in us, it did not represent a taxable dividend. Lastly, as the overall value to the stockholders was not reduced as a result of the stock dividend, our board of directors determined that the stock dividend would not be dilutive to stockholders as of the applicable record date. Specific tax characteristics of all distributions are reported to stockholders annually on Form 1099-DIV.

We have adopted an "opt in" distribution reinvestment plan for our stockholders. As a result, if we make a distribution, our stockholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of our common stock.

We may fund our cash distributions from any sources of funds available, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to it on account of preferred and common equity investments in portfolio companies and fee waivers from our Advisers. We have not established any limit on the extent to which we may use borrowings or proceeds from the Offering to fund distributions. Our distributions may exceed our earnings, especially during the period before we have substantially invested the proceeds from the Offering. As a result, a portion of the distributions we make may represent a return of capital for U.S. federal income tax purposes.

The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of our board of directors.

In order to satisfy the Code requirements applicable to a RIC, we must distribute to our stockholders substantially all of our taxable income on an annual basis; however, we may elect to spillover certain excess undistributed taxable income from one tax year into the next tax year, which would require us to pay a 4% non-deductible excise tax on such excess undistributed taxable income. In 2012, we estimated approximately $117,000, or $0.09 per share, of our taxable income for 2012 which was distributed in 2013 prior to the filing of our federal income tax return for the 2012 taxable year. This was subject to the 4% nondeductible excise tax. In 2013, we estimated that approximately $7,000, or $0.001 per share, of our taxable income for 2013 was distributed in 2014, prior to the filing of our federal income tax return for our 2013 taxable year. None of this was subject to the 4% nondeductible excise tax as the Company distributed enough to eliminate an excise tax liability. In 2014, we estimated that approximately $59,000, or $0.0019 per share, of our taxable income for 2014 will be distributed in 2015, prior to the filing of our federal income tax return for our 2014 taxable year. We anticipate none of this will be subject to the 4% nondeductible excise tax. In order to avoid excise tax, we need to distribute, during each calendar year an amount at least equal to the sum of (1) 98.0% of our net ordinary income for the calendar year, (2) 98.2% of our capital gain in excess of capital loss for the calendar year and (3) any net ordinary income and net capital gain for the preceding year that was not distributed during such year and on which we paid no U.S. federal income tax.

*Capital Resources*

As of December 31, 2014, we had approximately $19.9 million in cash and cash equivalents and our net asset value totaled approximately $260.1 million equating to approximately $8.40 per share. The change from the December 31, 2013 net asset value per share of $8.91 was largely due to the unrealized depreciation on investments in the portfolio. The unrealized depreciation on investments in our portfolio was primarily driven by the decline in the fair value of two investments in one portfolio company, which went into default after December 31, 2014, and the recent impact of broad price declines in the high yield bond and leveraged loan markets and the effect of declining oil prices on our investments in the oil and gas sector. While these macroeconomic events have impacted our investment valuations, management believes that these valuation declines are generally not indicative of a decline in credit quality.

On May 24, 2012, we entered into a $15 million senior secured revolving credit facility (the "Credit Facility") with Capital One, National Association ("Capital One"). The Credit Facility had an accordion provision allowing increases in borrowing of up to $60 million, for a total facility of up to $75 million, subject to certain conditions. On August 16, 2013, the Company expanded the available capacity under the Credit Facility from $15 million to $25 million. The Credit Facility was further amended on November 25, 2013, increasing the capacity of the Credit Facility from $25 million to $30 million.

On March 11, 2014, we entered into a $70 million senior secured revolving credit facility with Capital One (the "Syndicated Credit Facility"), as the administrative agent, and with Capital One and the other banks, (the "Lenders"). This Syndicated Credit Facility amends and restates the Credit Facility in its entirety. Borrowings under the Syndicated Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) the adjusted LIBOR rate plus 2.75% or (ii) the base rate plus 1.75%. The base rate is defined as the higher of (a) the prime rate or (b) the Federal Funds Rate (as defined in the credit agreement) plus 0.5%. The adjusted LIBOR rate is defined in the credit agreement for the Syndicated Credit Facility as the LIBOR rate plus such amount as adjusted for statutory reserve requirements for Eurocurrency liabilities. We pay unused commitment fees of 0.25% per annum on the unused lender commitment under the Syndicated Credit Facility if more than 50% of the Syndicated Credit Facility is being used and a commitment fee of 0.375% per annum on the unused lender commitments under the Syndicated Credit Facility if less than 50% of the Syndicated Credit Facility is being used. On May 30, 2014, we entered into the First Amendment (the "First Amendment") to the Syndicated Credit Facility. The First Amendment provides for, among other things, the creation of certain of our structured subsidiaries (the "Structured Subsidiaries"), which are not guarantors under the Syndicated Credit Facility and which will be permitted to incur debt outside of the Syndicated Credit Facility, subject to certain conditions. The assets of the Structured Subsidiaries are not considered collateral under the Syndicated Credit Facility. The First Amendment contains additional covenants such as maintaining a minimum consolidated tangible net worth, excluding Structured Subsidiaries, limitations regarding industry concentration and an anti-hoarding provision to protect the collateral under the Syndicated Credit Facility. On September 22, 2014, we entered into a Second Amendment ("Second Amendment") to the Syndicated Credit Facility. The Second Amendment increases the revolver commitments by the amount of $35 million, from $70 million to $105 million. The Syndicated Credit Facility has an accordion provision allowing borrowing capacity to increase up to $150 million.

Borrowings under the Syndicated Credit Facility are secured by all of our assets, except the assets of Structured Subsidiaries, as well as all of the assets of, and a pledge of equity ownership interests in, any of our future subsidiaries, which would be joined as guarantors. The credit agreement for the Syndicated Credit Facility contains affirmative and negative covenants usual and customary for credit facilities of this nature, including, but not limited to, maintaining a certain interest coverage ratio and asset coverage ratio, maintaining a minimum consolidated tangible net worth, excluding the Structured Subsidiaries, limitations regarding industry concentration and anti-hoarding provisions to protect the collateral under the Syndicated Credit Facility. Further, the credit agreement contains usual and customary default provisions including, without limitation: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy; (iii) a material adverse change in our business; or (iv) breach of any covenant, representation or warranty in the loan agreement or other credit documents and failure to cure such breach within defined periods. Additionally, the Syndicated Credit Facility requires us to obtain written approval from the administrative agent prior to entering into any material amendment, waiver or other modification of any provision of the Advisory Agreement. As of December 31, 2014, we were not aware of any instances of noncompliance with covenants related to the Syndicated Credit Facility. The maturity date of the Syndicated Credit Facility is March 11, 2017, and the Company has two, one-year extension options subject to Lender approval.

On June 2, 2014, our wholly-owned Structured Subsidiary, HMS Funding I LLC, a Delaware limited liability company ("HMS Funding"), entered into a credit agreement (the "HMS Funding Facility") among HMS Funding, as borrower, the Company, as equityholder and as servicer, Deutsche Bank AG, New York Branch ("Deutsche Bank"), as administrative agent, the financial institutions party thereto as lenders (together with Deutsche Bank, the "HMS Funding Lenders"), and U.S. Bank National Association (the "Collateral Agent"), as collateral agent and collateral custodian. The HMS Funding Facility provided for an initial borrowing capacity of $50 million, subject to certain limitations, including limitations with respect to HMS Funding's investments, as more fully described in the HMS Funding Facility. On July 22, 2014, HMS Funding, the Company, Deutsche Bank and the Collateral Agent, entered into Amendment No. 1 to the HMS Funding Facility, pursuant to which the borrowing capacity under the HMS Funding Facility was increased to $100 million. On December 3, 2014, HMS Funding, the Company, Deutsche Bank and the Collateral Agent entered into Amendment No. 2 to the HMS Funding Facility, pursuant to which the borrowing capacity under the HMS Funding Facility was increased to $125 million. On February 4, 2015, HMS Funding, the Company, Deutsche Bank and the Collateral Agent entered into Amendment No. 3 to the HMS Funding Facility, pursuant to which the borrowing capacity under the HMS Funding Facility was increased to $200 million. At HMS Funding's request and upon approval by the HMS Funding Lenders, the maximum borrowings under the HMS Funding Facility can be increased with by up to an additional $50 million, in the aggregate, subject to certain limitations contained in the HMS Funding Facility, for a total maximum capacity of $250 million. We contribute certain assets to HMS Funding from time to time, as permitted under the Syndicated Credit Facility, as collateral to secure the HMS Funding Facility. The HMS Funding Facility matures on June 3, 2019.

Under the HMS Funding Facility, interest is calculated as the sum of the one-month LIBOR plus the applicable margin of 2.75%. The HMS Funding Facility provides for a revolving period until December 3, 2016, unless otherwise extended with the consent of the HMS Funding Lenders. The amortization period begins the day after the last day of the revolving period and ends on the maturity date. During the amortization period, HMS Funding cannot borrow any remaining unfunded commitment, the applicable margin will increase by 0.25%, and a portion of interest income and all principal collections are applied to the outstanding loan balance. Any outstanding loan balance is due on the maturity date. Additionally, HMS Funding will pay a utilization fee equal to 2.75% of the undrawn amount of the required utilization, which for the first 90 days of the facility was 25% of the loan commitment amount and 75% thereafter until the end of the revolving period. HMS Funding also pays an undrawn fee on the amount of commitments of 0.65% per annum, depending on the utilization of the loan commitment amount. A loan commitment amount subject to the utilization fee will not be subject to the undrawn fee.

HMS Funding's obligations under the HMS Funding Facility are secured by a first priority security interest in its assets, including all of the present and future property and assets of HMS Funding. The HMS Funding Facility contains affirmative and negative covenants usual and customary for credit facilities of this nature, including, but not limited to maintaining a positive tangible net worth, limitations on industry concentration and complying with all applicable laws. The HMS Funding Facility contains usual and customary default provisions including, without limitation: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy of the Company; (iii) the occurrence of a change of control; or (iv) any uncured breach of a covenant, representation or warranty in the HMS Funding Facility. As of December 31, 2014, we are not aware of any instances of noncompliance with covenants related to the HMS Funding Facility.

As of December 31, 2014, we had approximately $87.9 million outstanding and $17.1 million available under our Syndicated Credit Facility, and approximately $95.0 million outstanding and $30.0 million available under the HMS Funding Facility, both of which we estimated approximated fair value and subject to certain limitations and the asset coverage restrictions under the 1940 act.

During the year ended December 31, 2014, we raised proceeds of approximately $253.1 million from the Offering, including proceeds from the distribution reinvestment plan, and made payments of $23.0 million for selling commissions and dealer manager fees. We also incurred an obligation of $3.8 million of Offering costs related to the Offering.

We anticipate that we will continue to fund our investment activities through existing cash, capital raised from our Offering, and borrowings on our Syndicated Credit Facility and HMS Funding Facility. Our primary uses of funds in both the short-term and long-term will be investments in portfolio companies, operating expenses and cash distributions to holders of our common stock.

In addition, as a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which include borrowings and any preferred stock we may issue in the future, of at least 200%. As of December 31, 2014 and December 31, 2013, our asset coverage ratio under BDC regulations was 242% and 443% respectively. This requirement limits the amount that we may borrow. As of December 31, 2014, due to these limitations, we had capacity under our Syndicated Credit Facility and HMS Funding Facility to borrow up to $47.1 million.

Although we have been able to secure access to potential additional liquidity, through proceeds from the Offering and also by entering into the Syndicated Credit Facility and HMS Funding Facility, there is no assurance that equity or debt capital will be available to us in the future on favorable terms, or at all.

**Related-Party Transactions and Agreements**

We have entered into agreements with the Adviser, the Sub-Adviser and the Dealer Manager, whereby we pay certain fees and reimbursements to these entities. These include payments to the Dealer Manager for selling commissions and the Dealer Manager fee and payments to our Adviser for reimbursement of Offering costs. In addition, we make payments for certain services that include, but are not limited to, the identification, execution, and management of our investments and also the management of our day-to-day operations provided to us by our Adviser and Sub-Adviser, pursuant to various agreements that we have entered into. See Note 9- *Related Party Transactions and Arrangements* to the financial statements included elsewhere in this annual report on Form 10-K for additional information regarding related party transactions.

**Contractual Obligations**

As of December 31, 2014, we had $182.9 million in borrowings outstanding under the Syndicated Credit Facility and HMS Funding Facility. Unless extended, the Syndicated Credit Facility will expire March 11, 2017, and the HMS Funding Facility will mature on June 3, 2019. The Syndicated Credit Facility has two, one-year extension options, with Lender approval that, if approved and exercised, would permit us to extend the maturity to March 11, 2019. See above for a description of the Syndicated Credit Facility and HMS Funding Facility.

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings atDecember 31, 2014 is as follows:

| | Payments Due By Period (dollars in thousands) | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| Syndicated Credit Facility (1) | $ 87,864 | $ — | $ 87,864 | $ — | $ — |
| HMS Funding Credit Facility (2) | $ 95,000 | $ — | $ — | $ 95,000 | $ — |

(1) At December 31, 2014, $17.1 million remained available under our Syndicated Credit Facility; however, our borrowing ability is limited to the asset coverage ratio restrictions imposed by the 1940 Act, as discussed above.
(2) At December 31, 2014, $30.0 million remained available under our HMS Funding Facility; however, our borrowing ability is limited to the asset coverage ratio restrictions imposed by the 1940 Act, as discussed above.

**Recently Issued Accounting Standards**

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2013-04, Liabilities (Topic 405): *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* (“ASU 2013-04”). ASU 2013-04 provides additional guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. Public companies are required to apply ASU 2013-04 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this guidance did not have a material impact on our financial statements.

In June 2013, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2013-08, Financial Services—Investment Companies (Topic 946): *Amendments to the Scope, Measurement, and Disclosure Requirements* (“ASU 2013-08”). ASU 2013-08 amends the criteria that define an investment company, clarifies the measurement guidance and requires certain additional disclosures. Public companies are required to apply ASU 2013-08 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this guidance did not have a material impact on our financial statements.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-9 supersedes the revenue recognition requirements under ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. The new Guidance is effective for the annual reporting period beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently evaluating the impact the adoption of this new accounting standard will have on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The core objective of this guidance is that management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. The provisions of ASU No. 2014-15 are effective as of December 31, 2016, and early adoption is permitted. We do not expect the adoption of this update to have a material impact on our financial statements.

**Off-Balance Sheet Arrangements**

At December 31, 2014, we had a total of approximately $6.4 million in outstanding commitments comprised of (i) four commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) one capital commitment that had not been fully called. At December 31, 2013, we had a $300,000 outstanding commitment to fund a term loan that had not been fully drawn.

**Recent Developments and Subsequent Events**

From January 1, 2015 through February 28, 2015, we have raised approximately $64.3 million in the public offering. During this period, we have funded approximately $132.8 million in investments and received proceeds from repayments and dispositions of approximately $12.3 million.

On January 5, 2015, we had two investments, with one portfolio company, with a combined principal balance of $4.4 million that were scheduled to mature. The borrower on these investments failed to repay the principal and accrued interest that was due on that date. The failure to repay constituted an event of default, and we are currently working with the borrower to maximize recovery of the amounts borrowed.

On January 9, 2015, we decreased our public offering price from $10.00 per share to $9.75 per share. This decrease in the public offering price will be effective as of our January 15, 2015 weekly closing. In accordance with our share pricing policy, our board of directors determined that a reduction in the public offering price per share was warranted following a decline in our estimated net asset value per share to an amount more than 5% below our then-current net offering price. The decline in our estimated net asset value per share was primarily driven by the recent impact of broad price declines in the high yield bond and leveraged loan markets and the effect of declining oil prices on our investments in companies in the oil and gas sector. As a result of the decrease in our public offering price per share, our maximum combined sales commission and dealer manager fee per share and the net proceeds per share will correspondingly decrease from $1.00 to $0.97 and $9.00 to $8.78, respectively.

Effective as of February 3, 2015, our board of directors elected David M. Covington to the newly created position of Chief Accounting Officer and Treasurer of the Company and the general partner of the Adviser. In these positions, Mr. Covington is responsible for the oversight of the treasury, accounting, financial reporting and SEC reporting functions. He is also responsible for establishing the companies' accounting policies and ensuring compliance with those policies.

On February 4, 2015, our wholly-owned Structured Subsidiary, the Company, Deutsche Bank and the Collateral Agent entered into the Third Amendment to the HMS Funding Facility increasing the borrowing capacity to $200 million. No other terms or conditions were modified as a result of this agreement.

On February 12, 2015, we filed a tender offer statement on Schedule TO with the SEC, to commence an offer by the Company to purchase, as approved by the board of directors, 400,571.32 shares of the Company's issued and outstanding common stock, par value $0.001 per share. The offer is for cash at a purchase price equal to the net asset value per share to be determined within 48 hours of the repurchase date.

On March 2, 2015, our Advisers entered into an agreement which allowed the Adviser to waive subordinated incentive fees on income that would have otherwise been payable to the Sub-Adviser for the quarter ended December 31, 2014.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

***Quantitative and Qualitative Disclosures about Market Risk***

We are subject to financial market risks, in particular changes in interest rates. Changes in interest rates may affect our interest income from portfolio investments, the fair value of our fixed income investments, and our cost of funding.

Our interest income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent any of our debt investments include floating interest rates. As of December 31, 2014, approximately 84.4% of our LMM, Private Loan, and private placement portfolio debt investments (based on cost) contained floating interest rates, the majority of which had index floors between 100 and 150 basis points. Assuming no changes to our investment portfolio and taking into account the interest rate floors, a 1% upward change in interest rates over the next twelve months would increase our interest income from debt investments by approximately $550,000. As of December 31, 2014, one-month LIBOR was approximately 0.2%. Therefore, given that most floating rate debt investments have index floors at or above 100 basis points, a decline in interest rates by 100 basis points is not expected to result in a change to interest income.

In addition, any fluctuations in prevailing interest rates may affect the fair value of our fixed rate debt instruments and result in changes in unrealized gains and losses, and may also affect a net increase or decrease in net assets resulting from operations. Such changes in unrealized appreciation and depreciation will materialize into realized gains and losses if we sell our investments before their respective debt maturity dates.

Because we borrow money to make investments, our net investment income is partially dependent upon the difference between the interest rate at which we invest borrowed funds and the interest rate at which we borrow funds. In periods of rising interest rates and when we have borrowed capital with floating interest rates, then our interest expense would increase, which could increase our financing costs and reduce our net investment income, especially to the extent we hold fixed-rate debt investments. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. Pursuant to the terms of the Syndicated Credit Facility and the HMS Funding Facility, as of December 31, 2014, we had borrowed at a floating rate of LIBOR plus 2.75%. Therefore, given our current level of borrowing of $182.9 million, a 1% upward change in interest rates for the next twelve months would increase our interest expense by approximately $1.8 million, respectively. As of December 31, 2014, the LIBOR rate was less than 100 basis points. Therefore, a 1% decline in interest rates would result in interest charged on the Credit Facility equal to only the spread of 2.75%, reducing interest expense by approximately $366,000.

If deemed prudent, we may use interest rate risk management techniques in an effort to minimize our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2014, we had not entered into any interest rate hedging arrangements.

**Item 8.** ***Financial Statements and Supplementary Data***

**Index to Audited Financial Statements**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders
HMS Income Fund, Inc.

We have audited the accompanying consolidated balance sheets of HMS Income Fund, Inc. (a Maryland corporation) and subsidiaries (the "Company"), including the schedule of investments, as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2014 and the financial highlights (see Note 5) for each of the three years in the period ended December 31, 2014 and the period from inception (November 22, 2011) to December 31, 2011. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included 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. Our procedures included verification by confirmation of securities as of December 31, 2014 and 2013, by correspondence with the portfolio companies and custodians, or by other appropriate auditing procedures where replies were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of HMS Income Fund, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 and the financial highlights for each of the three years in the period ended December 31, 2014 and the period from inception (November 22, 2011) to December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Houston, Texas
March 3, 2015

**HMS Income Fund, Inc.**
**Consolidated Balance Sheets**
**(in thousands, except share and per share amounts)**

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Portfolio investments at fair value: | | |
| Non-Control/Non-Affiliate investments (amortized cost: $465,663 and $66,410 as of December 31, 2014 and December 31, 2013, respectively) | $ 451,917 | $ 66,882 |
| Affiliate investments (amortized cost: $7,420 and zero as of December 31, 2014 and December 31, 2013, respectively) | 7,424 | — |
| Control investments (amortized cost: $14,521 and zero as of December 31, 2014 and December 31, 2013, respectively) | 14,521 | — |
| Total portfolio investments | 473,862 | 66,882 |
| Cash and cash equivalents | 19,868 | 6,356 |
| Interest receivable | 4,328 | 399 |
| Receivable for securities sold | 3,014 | — |
| Prepaid and other assets | 338 | 109 |
| Due from Main Street Capital Corporation | — | 19 |
| Deferred offering costs (net of accumulated amortization of $4,428 and $631 as of December 31, 2014 and December 31, 2013, respectively) | 2,388 | 3,688 |
| Deferred financing costs (net of accumulated amortization of $582 and $144 as of December 31, 2014 and December 31, 2013, respectively) | 2,426 | 168 |
| Total assets | $ 506,224 | $ 77,621 |
| **LIABILITIES** | | |
| Accounts payable and other liabilities | $ 246 | $ 71 |
| Payable for unsettled trades | 6,249 | 2,608 |
| Stockholder distributions payable | 1,760 | 295 |
| Due to affiliates | 4,530 | 3,771 |
| Payable for securities purchased | 50,512 | 8,799 |
| Notes payable | 182,864 | 14,000 |
| Total liabilities | 246,161 | 29,544 |
| Commitments and Contingencies (Note 11) | | |
| **NET ASSETS** | | |
| Common stock, $.001 par value; 150,000,000 shares authorized, 30,967,120 and 5,396,967 issued and outstanding as of December 31, 2014 and December 31, 2013, respectively | 31 | 5 |
| Additional paid in capital | 273,774 | 47,600 |
| Net unrealized appreciation (depreciation) | (13,742 ) | 472 |
| Total net assets | 260,063 | 48,077 |
| **Total liabilities and net assets** | $ 506,224 | $ 77,621 |
| **Net asset value per share** | $ 8.40 | $ 8.91 |

*See notes to the financial statements.*

**HMS Income Fund, Inc.**
**Consolidated Statements of Operations**
**(in thousands, except shares and per share and per unit amounts)**

| | Year Ended December 31, 2014 | Year Ended December 31, 2013 | Year Ended December 31, 2012 |
|---|---|---|---|
| **INVESTMENT INCOME** | | | |
| Interest income | | | |
| Non-Control/Non-Affiliate investments | $ 19,013 | $ 2,758 | $ 1,238 |
| Affiliate investments | 170 | — | 635 |
| Control investments | 30 | — | — |
| Total interest income | 19,213 | 2,758 | 1,873 |
| **EXPENSES** | | | |
| Interest expense | 3,325 | 419 | 316 |
| Base management and incentive fees | 6,029 | 784 | 358 |
| Administrative services expenses | 1,497 | 1,018 | 438 |
| Professional fees | 478 | 361 | 201 |
| Insurance | 191 | 186 | 108 |
| Other general and administrative | 595 | 240 | 114 |
| Expenses before fee and expense waivers | 12,115 | 3,008 | 1,535 |
| Waiver of management and incentive fees | (2,274) | (784) | (358) |
| Waiver of administrative services expenses | (1,497) | (1,018) | (438) |
| Expense support payment from Adviser | (328) | (153) | — |
| Total expenses, net of fee and expense waivers | 8,016 | 1,053 | 739 |
| **NET INVESTMENT INCOME** | 11,197 | 1,705 | 1,134 |
| **NET REALIZED GAIN FROM INVESTMENTS** | | | |
| Non-Control/Non-Affiliate investments | 20 | 27 | 2 |
| Affiliate investments | — | — | 12 |
| Control investments | — | — | — |
| Total realized gain from investments | 20 | 27 | 14 |
| **NET REALIZED INCOME** | 11,217 | 1,732 | 1,148 |
| **NET UNREALIZED APPRECIATION (DEPRECIATION)** | | | |
| Non-Control/Non-Affiliate investments | (14,220) | 421 | 62 |
| Affiliate investments | 6 | — | 25 |
| Control investments | — | — | — |
| Total net unrealized appreciation (depreciation) | (14,214) | 421 | 87 |
| **NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS** | $ (2,997) | $ 2,153 | $ 1,235 |
| **NET INVESTMENT INCOME PER SHARE/UNIT – BASIC AND DILUTED** | $ 0.70 | $ 0.64 | $ 0.99 |
| **NET REALIZED INCOME PER SHARE/UNIT – BASIC AND DILUTED** | $ 0.70 | $ 0.65 | $ 1.00 |
| **NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE/UNIT – BASIC AND DILUTED** | $ (0.19) | $ 0.81 | $ 1.08 |
| **DISTRIBUTIONS DECLARED PER SHARE/UNIT** | $ 0.70 | $ 0.70 | $ 0.94 |
| **WEIGHTED AVERAGE SHARES/UNITS OUTSTANDING – BASIC AND DILUTED** | 16,022,853 | 2,648,689 | 1,151,554 |

*See notes to the financial statements.*

## HMS Income Fund, Inc.
## Consolidated Statements of Changes in Net Assets
## (in thousands, except number of shares)

| | Membership Interests | | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Units | Par Value | Number of Shares | Par Value | Additional Paid-In Capital | Accumulated Net Investment Income, Net of Stockholder Distributions | Accumulated Net Realized Gain | Net Unrealized Appreciation | Total Net Assets |
| **Balance at December 31, 2011** | 1,111,111 | $ 1 | — | $ — | $ 9,999 | $ 56 | $ — | $ (36) | $ 10,020 |
| Merger transaction - May 31, 2012 | (1,111,111) | (1) | 1,123,157 | 1 | — | — | — | — | — |
| Issuance of common stock due to stock dividend | — | — | 25,274 | — | — | — | — | — | — |
| Issuance of common stock | — | — | 141,041 | — | 1,379 | — | — | — | 1,379 |
| Selling commissions and dealer manager fees | — | — | — | — | (109) | — | — | — | (109) |
| Offering costs | — | — | — | — | (21) | — | — | — | (21) |
| Stockholder distributions declared | — | — | — | — | — | (1,081) | — | — | (1,081) |
| Net increase in net assets resulting from operations | — | — | — | — | — | 1,134 | 14 | 87 | 1,235 |
| **Balance at December 31, 2012** | — | $ — | 1,289,472 | $ 1 | $ 11,248 | $ 109 | $ 14 | $ 51 | $ 11,423 |
| Issuance of common stock | — | — | 4,107,495 | 4 | 40,692 | — | — | — | 40,696 |
| Redemption of common stock | — | — | — | — | (4) | — | — | — | (4) |
| Selling commissions and dealer manager fees | — | — | — | — | (3,726) | — | — | — | (3,726) |
| Offering costs | — | — | — | — | (610) | — | — | — | (610) |
| Stockholder distributions declared | — | — | — | — | — | (1,814) | (41) | — | (1,855) |
| Net increase in net assets resulting from operations | — | — | — | — | — | 1,705 | 27 | 421 | 2,153 |
| **Balance at December 31, 2013** | — | $ — | 5,396,967 | $ 5 | $ 47,600 | $ — | $ — | $ 472 | $ 48,077 |
| Issuance of common stock | — | — | 25,588,411 | 26 | 253,104 | — | — | — | 253,130 |
| Redemption of common stock | — | — | (18,258) | — | (158) | — | — | — | (158) |
| Selling commissions and dealer manager fees | — | — | — | — | (22,975) | — | — | — | (22,975) |
| Offering costs | — | — | — | — | (3,797) | — | — | — | (3,797) |
| Stockholder distributions declared | — | — | — | — | — | (11,197) | (20) | — | (11,217) |
| Net increase (decrease) in net assets resulting from operations | — | — | — | — | — | 11,197 | 20 | (14,214) | (2,997) |
| **Balance at December 31, 2014** | — | $ — | 30,967,120 | $ 31 | $ 273,774 | $ — | $ — | $ (13,742) | $ 260,063 |

*See notes to the financial statements.*

**HMS Income Fund, Inc.**
**Consolidated Statements of Cash Flows**
**(in thousands)**

| | Year Ended December 31, 2014 | Year Ended December 31, 2013 | Year Ended December 31, 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net increase (decrease) in net assets resulting from operations | $ (2,997) | $ 2,153 | $ 1,235 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities: | | | |
| Principal repayments received, proceeds from sales of investments in portfolio companies | 96,264 | 16,627 | 9,675 |
| Investments in portfolio companies | (477,482) | (57,856) | (9,148) |
| Net unrealized depreciation (appreciation) of portfolio investments | 14,214 | (421) | (87) |
| Net realized (gain) on sale of portfolio investments | (20) | (27) | (14) |
| Amortization of deferred financing costs | 438 | 94 | 77 |
| Accretion of unearned income | (1,084) | (194) | (146) |
| Net payment-in-kind interest accrual | (274) | (80) | (25) |
| Changes in other assets and liabilities: | | | |
| Interest receivable | (3,929) | (341) | (32) |
| Prepaid and other assets | (128) | (27) | (82) |
| Due from Main Street Capital Corporation | 19 | 984 | (833) |
| Due to affiliates | 5,858 | 304 | 268 |
| Accounts payable and other liabilities | 165 | (43) | 96 |
| Payable for unsettled trades | 3,641 | 2,318 | 290 |
| Net cash provided by (used in) operating activities | (365,315) | (36,509) | 1,274 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of common stock | 244,703 | 39,657 | 1,379 |
| Redemption of common shares | (158) | (4) | — |
| Payment of selling commissions and dealer manager fees | (22,975) | (3,732) | (109) |
| Payment of deferred offering costs | (3,799) | (629) | — |
| Payment of stockholder distributions | (5,122) | (1,207) | (1,005) |
| Repayments on notes payable | (152,636) | (14,800) | — |
| Proceeds from notes payable | 321,500 | 21,800 | 7,000 |
| Repayments on note payable from Main Street Capital Corporation | — | — | (7,500) |
| Payment of deferred financing costs | (2,686) | (52) | (149) |
| Net cash provided by (used in) financing activities | 378,827 | 41,033 | (384) |
| Net increase in cash and cash equivalents | 13,512 | 4,524 | 890 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 6,356 | 1,832 | 942 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | $ 19,868 | $ 6,356 | $ 1,832 |

*See notes to the financial statements.*

**HMS Income Fund, Inc.**
**Consolidated Schedule of Investments**
**As of December 31, 2014**
**(dollars in thousands)**

| Portfolio Company (1) (3) | Business Description | Type of Investment (2) (3) | Principal (7) | Cost (7) | Fair Value |
|---|---|---|---|---|---|
| **Control Investments (6)** | | | | | |
| **GRT Rubber Technologies, LLC (8) (10) (13)** | Engineered Rubber Product Manufacturer | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - December 19, 2019) | $ 8,250 | $ 8,086 | $ 8,086 |
| | | Member Units (2,896 shares) | | 6,435 | 6,435 |
| | | | | 14,521 | 14,521 |
| **Subtotal Control Investments (6) (3% of total investments at fair value)** | | | | **$ 14,521** | **$ 14,521** |
| **Affiliate Investments (4)** | | | | | |
| **AFG Capital Group, LLC (10) (13)** | Provider of Rent-to-Own Financing Solutions and Services | 11.00% Secured Debt (Maturity Date -November 7, 2019) | $ 1,700 | $ 1,596 | $ 1,596 |
| | | Member Units (46 shares) | | 300 | 300 |
| | | Warrants (10 equivalent shares) | | 65 | 65 |
| | | | | 1,961 | 1,961 |
| **Mystic Logistics, Inc. (10) (13)** | Logistics and Distribution Services Provider for Large Volume Mailers | 12.00% Secured Debt (Maturity Date -August 15, 2019) | 2,500 | 2,423 | 2,427 |
| | | Common Stock (1,468 shares) | | 680 | 680 |
| | | | | 3,103 | 3,107 |
| **SoftTouch Medical Holdings LLC (8) (10) (13)** | Home Provider of Pediatric Durable Medical Equipment | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity Date - October 30, 2019) | 1,500 | 1,471 | 1,471 |
| | | Member Units (798 shares) | | 885 | 885 |
| | | | | 2,356 | 2,356 |
| **Subtotal Affiliate Investments (4) (2% of total investments at fair value)** | | | | **$ 7,420** | **$ 7,424** |
| **Non-Control/Non-Affiliate Investments (5)** | | | | | |
| **Ability Network Inc. (8)** | Health Care Information Technology | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - May 14, 2021) | $ 4,975 | $ 4,923 | $ 4,888 |
| **Accuvant Finance LLC (8)** | Cyber Security Value Added Reseller | Prime Plus 3.75% (Floor 3.25%), Current Coupon 7%, Secured Debt (Maturity - October 22, 2020) | 2,861 | 2,834 | 2,853 |
| **Allflex Holdings III Inc. (8)** | Manufacturer of Livestock Identification Products | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - July 19, 2021) (14) | 8,422 | 8,529 | 8,264 |
| **AmeriTech College Operations, LLC (10) (13)** | For-Profit Nursing and Healthcare College | 10.00% Secured Debt, (Maturity - January 31, 2020) | 871 | 870 | 870 |
| **AMF Bowling Centers, Inc. (8)** | Bowling Alley Operator | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - September 18, 2021) | 7,980 | 7,915 | 7,860 |
| **Aptean, Inc. (8)** | Enterprise Application Software Provider | LIBOR Plus 4.25% (Floor 1.00%), Current Coupon 5.25%, Secured Debt (Maturity - February 26, 2020) | 4,460 | 4,460 | 4,334 |
| **Artel, LLC (8)** | Land-Based and Commercial Satellite Provider | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - November 27, 2017) | 919 | 899 | 910 |
| **Bioventus, LLC (8) (11)** | Production of Orthopedic Healing Products | LIBOR Plus 10.00% (Floor 1.00%), Current Coupon 11.00%, Secured Debt (Maturity - April, 10, 2020) (14) | 7,000 | 6,866 | 6,983 |
| **Blackbrush Oil and Gas LP (8) (12)** | Oil & Gas Exploration | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - July 30, 2021) (14) | 10,085 | 9,966 | 8,370 |
| **Blackhawk Specialty Tools LLC (8)** | Oilfield Equipment & Services | LIBOR Plus 5.25% (Floor 1.25%), Current Coupon 6.50%, Secured Debt (Maturity - August 1, 2019) | 1,424 | 1,424 | 1,403 |
| **Blue Bird Body Company (8)** | School Bus Manufacturer | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity - June 26, 2020) | 6,000 | 5,917 | 5,970 |
| **Bluestem Brands, Inc. (8)** | Multi-Channel Retailer of General Merchandise | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity - November 6, 2020) | 7,500 | 7,206 | 7,237 |
| **Brasa Holdings, Inc. (8) (12)** | Upscale Full Service Restaurants | LIBOR Plus 9.50% (Floor 1.5%), Current Coupon 11.00%, Secured Debt (Maturity - January 20, 2020) (14) | 10,000 | 10,100 | 9,900 |
| **Brightwood Capital Fund III, LP (9) (15) (16)** | Investment Partnership | LP Interests (Brightwood Capital Fund III, LP) (Fully diluted .57%) (16) | | 1,575 | 1,575 |
| **Brundage-Bone Concrete Pumping, Inc.** | Construction Services Provider | 10.38% Secured Bond (Maturity - September 1, 2021) (14) | 4,000 | 4,047 | 4,090 |
| **CAI Software, LLC (10) (13)** | Provider of Specialized Enterprise Resource Planning Software | 12.00% Secured Debt (Maturity Date - October10, 2019) | 1,350 | 1,311 | 1,311 |
| | | Member Units (16,339 shares) | | 163 | 163 |
| | | | | 1,474 | 1,474 |
| **California Healthcare Medical Billing, Inc. (10) (13)** | Outsourced Billing & Revenue Cycle Management | 9.00% Secured Debt, (Maturity - October 17, 2016) | 750 | 745 | 750 |
| **Cedar Bay Generation Company LP (8)** | Coal-Fired Cogeneration Plant | LIBOR Plus 5.00% (Floor 1.25%), Current Coupon 6.25%, Secured Debt (Maturity - April 23, 2020) | 1,446 | 1,446 | 1,435 |
| **Cengage Learning Acquisitions, Inc. (8) (12)** | Provider of Educational Print and Digital Services | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - March 31, 2020) | 9,975 | 9,975 | 9,896 |
| **Charlotte Russe, Inc. (8)** | Fast-Fashion Retailer to Young Women | LIBOR Plus 5.50% (Floor 1.25%), Current Coupon 6.75%, Secured Debt (Maturity - May 22, 2019) | 5,472 | 5,472 | 5,345 |
| **Clarius BIGS, LLC (11)** | Prints & Advertising Film Financing | 15.00% PIK Secured Debt (Maturity - January 5, 2015) | 3,297 | 3,039 | 1,385 |
| | | 20.00% PIK Secured Debt (Maturity - January 5, 2015) | 1,093 | 1,001 | 459 |
| | | | | 4,040 | 1,844 |
| **Covenant Surgical Partners, Inc.** | Ambulatory Surgical Centers | 8.75% Secured Debt (Maturity - August 1, 2019) | 5,000 | 5,000 | 5,050 |
| **CRGT, Inc. (8) (12)** | Provider of Custom Software Development | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - December 18, 2020) | 10,000 | 9,800 | 9,850 |
| **CST Industries, Inc. (8)** | Storage Tank Manufacturer | LIBOR Plus 6.25% (Floor 1.50%), Current Coupon 7.75%, Secured Debt (Maturity - May 22, 2017) | 2,331 | 2,318 | 2,308 |
| **Datacom, LLC (10) (13)** | Technology and Telecommunications Provider | 10.50% Secured Debt (Maturity - May 30, 2019) | 1,245 | 1,222 | 1,222 |
| | | Member Units (717 units) | | 670 | 670 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 1,892 | 1,892 |
| **ECP-PF: CT Operations, Inc. (11)** | Fitness Club Operator | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - November 26, 2019) | 1,875 | 1,857 | 1,857 |
| **East West Copolymer & Rubber, LLC (10) (13)** | Manufacuterer of Synthetic Rubbers | 12.00% Secured Debt (Maturity Date - October 17, 2019) | 2,400 | 2,336 | 2,336 |
| | | Warrants (455,820 equivalent shares) | | 10 | 10 |
| | | | | 2,346 | 2,346 |
| **Energy & Exploration Partners, LLC (8) (12)** | Oil & Gas Exploration and Production | LIBOR plus 6.75% (Floor 1.00%), Current Coupon 7.75%, Secured Debt (Maturity - January 22, 2019) | 7,975 | 7,033 | 5,722 |
| **e-Rewards, Inc. (8)** | Provider of Digital Data Collection | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - October 29, 2018) | 5,869 | 5,855 | 5,810 |
| **FishNet Security, Inc. (8)** | Information Technology Value-Added Reseller | LIBOR Plus 5.00% (Floor 1.25%), Current Coupon 6.25%, Secured Debt (Maturity - November 30, 2017) | 2,769 | 2,762 | 2,769 |
| **Flavors Holdings, Inc. (8) (12)** | Global Provider of Flavoring and Sweetening Products and Solutions | LIBOR Plus 5.75% (Floor 1.00%), Current Coupon 6.75%, Secured Debt (Maturity - April 3, 2020) | 8,888 | 8,520 | 8,510 |
| **Fram Group Holdings, Inc. (8)** | Manufacturer of Automotive Maintenance Products | LIBOR Plus 5.00% (Floor 1.50%), Current Coupon 6.50%, Secured Debt (Maturity - July 29, 2017) | 3,481 | 3,470 | 3,465 |
| **GST Autoleather, Inc. (8)** | Automotive Leather Manufacturer | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity Date - July 10, 2020) | 9,975 | 9,882 | 9,825 |
| **Guerdon Modular Holdings, Inc. (10) (13)** | Mutli-Family and Commercial Modular Construction Company | 11.00% Secured Debt (Maturity - August 13, 2019) | 2,800 | 2,745 | 2,752 |
| | | Common Stock (42,644 shares) | | 600 | 600 |
| | | | | 3,345 | 3,352 |
| **Guitar Center, Inc.** | Musical Instruments Retailer | 6.50% Secured Bond (Maturity - April 15, 2019) | 7,000 | 6,723 | 6,020 |
| **Halcon Resources Corporation (9)** | Oil & Gas Exploration & Production | 9.75% Unsecured Bond (Maturity - July 15, 2020) (17) | 3,000 | 2,574 | 2,250 |
| **Hunter Defense Technologies, Inc. (8)** | Provider of Military and Commercial Shelters and Systems | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity Date - August 5, 2019) | 5,925 | 5,813 | 5,851 |
| **ICON Health and Fitness, Inc.** | Producer of Fitness Products | 11.88% Secured Bond (Maturity - October 15, 2016) | 6,885 | 6,866 | 6,472 |
| **iEnergizer Limited (8) (9)** | Provider of Business Outsourcing Solutions | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - May 1, 2019) | 5,336 | 5,314 | 4,936 |
| **Inn of the Mountain Gods Resort and Casino** | Hotel & Casino Owner & Operator | 9.25% Secured Bond (Maturity - November 30, 2020) | 7,980 | 7,926 | 7,661 |
| **iQor US Inc. (8)** | Business Process Outsourcing Services Provider | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - April 1, 2021) | 5,906 | 5,760 | 5,492 |
| **IronGate Energy Services, LLC** | Oil and Gas Services | 11.00% Secured Bond (Maturity - July 1, 2018) | 5,825 | 5,829 | 3,903 |
| **Jackson Hewitt Tax Service Inc. (8)** | Tax Preparation Service Provider | LIBOR Plus 8.50% (Floor 1.50%), Current Coupon 10.00%, Secured Debt (Maturity - October 16, 2017) | 8,000 | 8,007 | 8,000 |
| **John Deere Landscapes, LLC (8) (11)** | Distributor of Landscaping Supplies | LIBOR Plus 4.00% (Floor 1.00%), Current Coupon 5.00%, Secured Debt (Maturity - December 23, 2019) | 7,960 | 7,607 | 7,607 |
| **Kellermeyer Bergensons Services, LLC (8)** | Outsourced Janitorial Services to Retail/Grocery Customers | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.50%, Secured Debt (Maturity - April 29, 2022) (14) | 7,200 | 7,059 | 7,164 |
| **Keypoint Government Solutions, Inc. (8)** | Pre-Employment Screening Services | LIBOR Plus 6.50% (Floor 1.25%), Current Coupon 7.75%, Secured Debt (Maturity - November 13, 2017) | 2,305 | 2,293 | 2,294 |
| **Larchmont Resources, LLC (8)** | Oil & Gas Exploration & Production | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity - August 7, 2019) | 739 | 742 | 718 |
| **LJ Host Merger Sub, Inc. (8)** | Managed Services and Hosting Provider | LIBOR Plus 4.75% (Floor 1.25%), Current Coupon 6.00%, Secured Debt (Maturity - December 13, 2019) | 5,384 | 5,366 | 5,330 |
| | | LIBOR Plus 8.75% (Floor 1.25%), Current Coupon 10.00%, Secured Debt (Maturity - December 11, 2020) (14) | 500 | 498 | 495 |
| | | | | 5,864 | 5,825 |
| **MAH Merger Corporation (8)** | Sports-Themed Casual Dining Chain | LIBOR Plus 4.50% (Floor 1.25%), Current Coupon 5.75%, Secured Debt (Maturity - July 19, 2019) | 1,481 | 1,481 | 1,485 |
| **MediMedia USA, Inc. (8)** | Provider of Healthcare Media and Marketing | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.00%, Secured Debt (Maturity - November 20, 2018) | 7,152 | 7,062 | 6,991 |
| **Milk Specialties Company (8)** | Processor of Nutrition Products | LIBOR Plus 6.25% (Floor 1.25%), Current Coupon 7.50%, Secured Debt (Maturity - November 9, 2018) | 7,645 | 7,628 | 7,473 |
| **Minute Key, Inc. (10) (13)** | Operator of Automated Key Duplication Kiosk | 10.00% Current / 2.00% PIK Secured Debt (Maturity Date - September 19, 2019) (14) | 1,000 | 987 | 987 |
| **Mood Media Corporation (8) (9) (12)** | Provider of Electronic Equipment | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - May 1, 2019) | 9,940 | 9,928 | 9,753 |
| **New Media Holdings II LLC (8) (9)** | Local Newspaper Operator | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - June 3, 2020) | 6,468 | 6,345 | 6,403 |
| **Nice-Pak Products, Inc. (8)** | Pre-Moistened Wipes Manufacturer | LIBOR Plus 6.00% (Floor 1.50%), Current Coupon 7.50%, Secured Debt (Maturity - June 18, 2015) | 7,401 | 7,379 | 7,364 |
| **North Atlantic Trading Company, Inc. (8) (12)** | Marketer/Distributor of Tobacco | LIBOR Plus 6.50% (Floor 1.25%), Current Coupon 7.75%, Secured Debt (Maturity -January 13, 2020) | 8,454 | 8,483 | 8,316 |
| **Novitex Acquisition, LLC (8) (12)** | Provider of Document Management Services | LIBOR Plus 6.25% (Floor 1.25%), Current Coupon 7.5%, Secured Debt (Maturity - July 7, 2020) | 8,978 | 8,824 | 8,618 |
| **Panolam Industries International, Inc. (8)** | Decorative Laminate Manufacturer | LIBOR Plus 6.25% (Floor 1.25%), Current Coupon 7.50%, Secured Debt (Maturity - August 23, 2017) | 7,844 | 7,800 | 7,726 |
| **Parq Holdings, LP (8) (9)** | Hotel and Casino Operator | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity - December 17, 2020) | 6,226 | 6,077 | 6,133 |
| **Permian Holdings, Inc.** | Storage Tank Manufacturer | 10.50% Secured Bond (Maturity - January 15, 2018) | 3,885 | 3,872 | 2,914 |
| **Pernix Therapeutical Holdings, Inc. (9) (11)** | Pharmaceutical Royalty - Anti-Migraine | 12.00% Secured Bond (Maturity - August 1, 2020) | 3,500 | 3,500 | 3,500 |
| **Peroxychem, LLC. (8) (12)** | Chemical Manufacturer | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.5%, Secured Debt (Maturity - February 28, 2020) | 6,461 | 6,433 | 6,397 |
| **Pike Corporation (8)** | Construction and Maintenance Services for Electric Transmission and Distribution Infrastructure | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.50%, Secured Debt (Maturity - June 22, 2022) (14) | 10,000 | 9,751 | 9,883 |
| **Polyconcept Financial B.V. (8)** | Promotional Products to Corporations and Consumers | LIBOR Plus 4.75% (Floor 1.25%), Current Coupon 6.00%, Secured Debt (Maturity - June 28, 2019) | 5,905 | 5,894 | 5,883 |
| **Premier Dental Services, Inc. (8)** | Dental Care Services | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - November 1, 2018) | 4,963 | 4,987 | 4,739 |
| **Prowler Acquisition Corporation (8)** | Specialty Distributor to the Energy Sector | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt (Maturity - January 28, 2020) | 2,322 | 2,335 | 2,148 |
| **Quad-C JH Holdings (8)** | Manufacturer and Distributor of Health Care Equipment & Supplies | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - May 9, 2020) | 4,457 | 4,433 | 4,406 |
| **Ravago Holdings America, Inc. (8)** | Polymers Distributor | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt (Maturity - December 20, 2020) | 5,955 | 5,995 | 5,985 |
| **RCHP, Inc. (8)** | Region Non-Urban Hospital Owner/Operator | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity - October 23, 2019) (14) | 6,500 | 6,455 | 6,484 |
| **Recorded Books, Inc. (8)** | Audiobook and Digital Content Publisher | LIBOR Plus 4.25% (Floor 1.00%), Current Coupon 5.25%, Secured Debt (Maturity - January 31, 2020) | 4,331 | 4,314 | 4,266 |
| **Relativity Media, LLC (11)** | Full-scale Film and Television Production and Distribution | 10.00% Secured Debt (Maturity - May 30, 2015) | 3,693 | 3,693 | 3,703 |

| | | | | | |
|---|---|---|---|---|---|
| | | 15.00% PIK Secured Debt (Maturity - May 30, 2015) (14) | 4,895 | 4,895 | 4,993 |
| | | | | 8,588 | 8,696 |
| **Renaissance Learning, Inc. (8)** | Technology-based K-12 Learning Solutions | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - April 11, 2022) (14) | 2,000 | 1,981 | 1,920 |
| **RGL Reservoir Operations, Inc. (8) (9)** | Oil & Gas Equipment & Services | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - August 13, 2021) | 3,990 | 3,875 | 3,219 |
| **RLJ Entertainment, Inc. (8) (11)** | Movie and TV Programming Licensee and Distributor | LIBOR Plus 8.75% (Floor .25%), Current Coupon 9.00%, Secured Debt (Maturity - September 11, 2019) | 9,913 | 9,633 | 9,633 |
| **Sage Automotive Interiors, Inc (8)** | Automotive Textiles Manufacturer | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.00%, Secured Debt (Maturity - October 8, 2021) (14) | 5,000 | 4,951 | 4,975 |
| **SCE Partners, LLC (8) (11)** | Hotel & Casino Operator | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity - August 14, 2019) | 998 | 989 | 1,002 |
| **Sorenson Communications, Inc.** | Manufacturer of Communication Products for Hearing Impaired | 9.00% Secured Bond (Maturity - October 31, 2020) (14) | 5,000 | 4,756 | 4,650 |
| **Sotera Defense Solutions, Inc. (8)** | Defense Industry Intelligence Services | LIBOR Plus 7.50% (Floor 1.50%), Current Coupon 9.00%, Secured Debt (Maturity - April 21, 2017) | 3,748 | 3,555 | 3,467 |
| **Symphony Teleca Services, Inc. (8)** | Outsourced Product Development | LIBOR Plus 4.75% (Floor 1.00%), Current Coupon 5.75%, Secured Debt (Maturity - August 7, 2019) | 6,000 | 5,945 | 5,970 |
| **Synagro Infrastructure Company, Inc. (8)** | Waste Management Services | LIBOR Plus 5.25% (Floor 1.00%), Current Coupon 6.25%, Secured Debt (Maturity - August 22, 2020) | 3,965 | 3,948 | 3,913 |
| **Teleguam Holdings, LLC (8)** | Cable and Telecom Services Provider | LIBOR Plus 7.50% (Floor 1.25%), Current Coupon 8.75%, Secured Debt (Maturity - June 10, 2019) (14) | 3,000 | 3,021 | 3,015 |
| **Templar Energy, LLC (8)** | Oil & Gas Exploration & Production | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity - November 25, 2020) (14) | 3,000 | 2,979 | 2,169 |
| **Tervita Corporation (8) (9)** | Oil and Gas Environmental Services | LIBOR Plus 5.00% (Floor 1.25%), Current Coupon 6.25%, Secured Debt (Maturity - May 15, 2018) | 2,475 | 2,486 | 2,302 |
| **The Topps Company, Inc. (8)** | Trading Cards & Confectionary | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - October 2, 2018) | 990 | 982 | 965 |
| **Therakos, Inc. (8)** | Immune System Disease Treatment | LIBOR Plus 5.75% (Floor 1.25%), Current Coupon 7.00%, Secured Debt (Maturity - December 27, 2017) | 1,450 | 1,430 | 1,445 |
| **TOMS Shoes, LLC (8)** | Global Designer, Distributor, and Retailer of Casual Footwear | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity - October 30, 2020) | 5,000 | 4,511 | 4,625 |
| **Travel Leaders Group, LLC (8) (12)** | Travel Agency Network Provider | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - December 5, 2018) | 8,431 | 8,401 | 8,431 |
| **USJ-IMECO Holding Company, LLC (8)** | Marine Interior Design and Installation | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - April 16, 2020) | 7,947 | 7,925 | 7,828 |
| **Vantage Oncology, LLC** | Outpatient Radiation Oncology Treatment Centers | 9.50% Secured Bond (Maturity - June 15, 2017) | 1,000 | 1,000 | 970 |
| **Vision Solutions, Inc. (8)** | Provider of Information Availability Software | LIBOR Plus 4.50% (Floor 1.50%), Current Coupon 6.00%, Secured Debt (Maturity - July 23, 2016) | 1,461 | 1,465 | 1,454 |
| | | LIBOR Plus 8.00% (Floor 1.50%), Current Coupon 9.50%, Secured Debt (Maturity - July 23, 2017) (14) | 875 | 869 | 849 |
| | | | | 2,334 | 2,303 |
| **Worley Claims Services, LLC (8) (11)** | Insurance Adjustment Management and Services Provider | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.00%, Secured Debt (Maturity - October 31, 2020) | 6,500 | 6,437 | 6,533 |
| **YP Holdings LLC (8)** | Online and Offline Advertising Operator | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.00%, Secured Debt (Maturity - June 4, 2018) | 2,822 | 2,833 | 2,832 |
| **Subtotal Non-Control/Non-Affiliate Investments (5) (95% of total portfolio investments at fair value)** | | | | **$ 465,663** | **$ 451,917** |
| **Total Investments** | | | | **$ 487,604** | **$ 473,862** |

(1) All investments are Private Placement portfolio investments, unless otherwise noted. All of the Company's assets are encumbered as security for the Company's credit agreements. See Note 8 - *Borrowings.*

(2) Debt investments are income producing, unless otherwise noted. Equity investments and warrants are non-income producing, unless otherwise noted.

(3) See Note 3 - *Fair Value Hierarchy for Investments* for summary geographic location of portfolio companies.

(4) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned, or an investment in an investment company’s investment adviser, and the investments are not classified as Control investments.

(5) Non-Control/Non-Affiliate investments are defined by the Investment Company Act of 1940, as amended (the “1940 Act”) as investments that are neither Control investments nor Affiliate investments.

(6) Control investments are defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.

(7) Principal is net of repayments. Cost represents amortized cost which is net of repayments and adjusted for the amortization of premiums and/or accretion of discounts, as applicable.

(8) Index based floating interest rate is subject to contractual minimum interest rates.

(9) The investment is not a qualifying asset under the 1940 Act. A business development company (“BDC”) may not acquire any asset other than qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC's total assets.

(10) Investment is classified as a Lower middle market investment.

(11) Investment is classified as a Private Loan portfolio investment.

(12) Investment or portion of investment is under contract to purchase and met trade date accounting criteria as of December 31, 2014. Settlement occurred or is scheduled to occur after December 31, 2014. See Note 2 for summary of *Security Transactions*.

(13) Investment serviced by Main Street Partners pursuant to the Servicing Agreement. See Note 2 for summary of *Investment Classification*.

(14) Second lien secured debt investment.

(15) Investment is classified as an Other portfolio investment.

(16) Income producing through dividends or distributions.

(17) Unsecured debt investment.

*See notes to the financial statements.*

# HMS Income Fund, Inc.
# Schedule of Investments
# As of December 31, 2013
# (dollars in thousands)

| Portfolio Company (1) | Business Description | Type of Investment (1) | Principal (5) | Cost (5) | Fair Value |
|---|---|---|---|---|---|
| **Non-Control/Non-Affiliate Investments (2)** | | | | | |
| **ABG Intermediate Holdings 2, LLC (6)** | Trademark Licensing of Clothing | LIBOR Plus 5.00%, Current Coupon 6.00%, Secured Debt (Maturity - June 28, 2019) | $ 1,500 | $ 1,492 | $ 1,496 |
| **Allflex Holdings III Inc. (6)** | Manufacturer of Livestock Identification Products | LIBOR Plus 7.00%, Current Coupon 8.00%, Secured Debt (Maturity - July 19, 2021) | 950 | 969 | 964 |
| **Ameritech College Operations, LLC (8) (10)** | For-Profit Nursing and Healthcare College | 18% Secured Debt (Maturity - March 9, 2017) | 750 | 750 | 750 |
| **AMF Bowling Centers, Inc. (6)** | Bowling Alley Operator | LIBOR Plus 7.50%, Current Coupon 8.75%, Secured Debt (Maturity - June 29, 2018) | 988 | 959 | 995 |
| **Ancile Solutions, Inc. (6)** | Provider of eLearning Solutions | LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - July 15, 2018) | 1,234 | 1,224 | 1,234 |
| **Answers Corporation (6) (9)** | Consumer Internet Search Services Provider | LIBOR Plus 5.50%, Current Coupon 6.50%, Secured Debt (Maturity - December 20, 2018) | 1,500 | 1,485 | 1,485 |
| **Apria Healthcare Group, Inc. (6)** | Home Healthcare Equipment | LIBOR Plus 5.50%, Current Coupon 6.75%, Secured Debt (Maturity - April 6, 2020) | 995 | 995 | 1,000 |
| **Artel, LLC (6) (9)** | Land-Based and Commercial Satellite Provider | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - November 27, 2017) | 1,188 | 1,152 | 1,170 |
| **Atkins Nutritionals Holdings II, Inc. (6)** | Weight Management Food Products | LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - January 2, 2019) | 993 | 983 | 1,005 |
| **BBTS Borrower LP (6)** | Oil & Gas Exploration and Midstream Services | LIBOR Plus 6.50%, Current Coupon 7.75%, Secured Debt (Maturity - June 4, 2019) | 1,489 | 1,482 | 1,503 |
| **Blackhawk Specialty Tools LLC (6)** | Oilfield Equipment & Services | LIBOR Plus 5.25%, Current Coupon 6.50%, Secured Debt (Maturity - August 1, 2019) | 1,500 | 1,500 | 1,496 |
| **Bluestem Brands, Inc. (6)** | Multi-Channel Retailer of General Merchandise | LIBOR Plus 6.50%, Current Coupon 7.50%, Secured Debt (Maturity - December 6, 2018) | 1,000 | 980 | 990 |
| **California Healthcare Medical Billing, Inc. (8) (10)** | Outsourced Billing & Revenue Cycle Management | 12% Secured Debt, (Maturity - October 17, 2015) | 750 | 750 | 750 |
| **CDC Software Corporation (6)** | Enterprise Application Software | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - August 6, 2018) | 743 | 737 | 749 |
| **Cedar Bay Generation Company LP (6)** | Coal-Fired Cogeneration Plant | LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - April 23, 2020) | 885 | 876 | 892 |
| **Collective Brands Finance, Inc. (6)** | Specialty Footwear Retailer | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - October 19, 2019) | 496 | 496 | 499 |
| **e-Rewards, Inc. (6)** | Provider of Digital Data Collection | LIBOR Plus 5.00%, Current Coupon 6.00%, Secured Debt (Maturity - October 29, 2018) | 1,000 | 980 | 994 |
| **Excelitas Technologies Corp. (6)** | Lighting and Sensor Components | LIBOR Plus 5.00%, Current Coupon 6.00%, Secured Debt (Maturity - November 2, 2020) | 989 | 980 | 997 |
| **Fender Musical Instruments Corporation (6)** | Manufacturer of Musical Instruments | LIBOR Plus 4.50%, Current Coupon 5.75%, Secured Debt (Maturity - April 3, 2019) | 448 | 443 | 455 |
| **FishNet Security, Inc. (6)** | Information Technology Value-Added Reseller | LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - November 30, 2017) | 1,980 | 1,963 | 1,989 |
| **Fram Group Holdings, Inc. (6) (9)** | Manufacturer of Automotive Maintenance Products | LIBOR Plus 5.00%, Current Coupon 6.50%, Secured Debt (Maturity - July 31, 2017) | 1,500 | 1,489 | 1,489 |
| **Getty Images, Inc. (6)** | Digital Photography and Video Content Marketplace | LIBOR Plus 3.50%, Current Coupon 4.75%, Secured Debt (Maturity - October 18, 2019) | 997 | 895 | 933 |
| **Golden Nugget, Inc. (6)** | Hotels & Casinos in Las Vegas and Louisiana | LIBOR Plus 4.50%, Current Coupon 5.50%, Secured Debt (Maturity - November 21, 2019) | 700 | 693 | 712 |
| **iEnergizer Limited (6) (7) (9)** | Provider of Business Outsourcing Solutions | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - May 1, 2019) | 1,437 | 1,413 | 1,417 |
| **Inn of the Mountain Gods Resort and Casino** | Hotel & Casino | 9.25% Secured Bond (Maturity - November 30, 2020) | 1,000 | 955 | 968 |
| **Ipreo Holdings LLC (6) (9)** | Application Software for Capital Markets | LIBOR Plus 4.00%, Current Coupon 5.00%, Secured Debt (Maturity - August 5, 2017) | 732 | 732 | 743 |
| **Jackson Hewitt Tax Service Inc. (6)** | Tax Preparation Services | LIBOR Plus 8.50%, Current Coupon 10.00%, Secured Debt (Maturity - October 16, 2017) | 1,000 | 1,000 | 995 |
| **Joernes Healthcare, LLC (6)** | Health Care Equipment & Supplies | LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - March 28, 2018) | 993 | 984 | 973 |
| **Keypoint Government Solutions, Inc. (6)** | Pre-Employment Screening Services | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - November 13, 2017) | 920 | 915 | 910 |
| **Larchmont Resources, LLC (6)** | Oil & Gas Exploration & Production | LIBOR Plus 7.25%, Current Coupon 8.50%, Secured Debt (Maturity - August 7, 2019) | 746 | 750 | 760 |
| **Learning Care Group (US) No. 2 Inc. (6)** | Provider of Early Childhood Education | LIBOR Plus 4.75%, Current Coupon 6.00%, Secured Debt (Maturity - May 8, 2019) | 998 | 988 | 1,004 |
| **LJ Host Merger Sub, Inc. (6) (9)** | Managed Services and Hosting Provider | LIBOR Plus 4.75%, Current Coupon 6.00%, Secured Debt (Maturity - December 13, 2019) | 1,000 | 990 | 995 |
| | | LIBOR Plus 8.75%, Current Coupon 10.00%, Secured Debt (Maturity - December 11, 2020) | 500 | 490 | 498 |
| | | | | 1,480 | 1,493 |
| **MAH Merger Corporation (6)** | Sports-Themed Casual Dining Chain | LIBOR Plus 4.50%, Current Coupon 5.75%, Secured Debt (Maturity - July 19, 2019) | 1,500 | 1,500 | 1,493 |
| **MediMedia USA, Inc. (6)** | Provider of Health Care Media and Marketing | LIBOR Plus 6.75%, Current Coupon 8.00%, Secured Debt (Maturity - November 20, 2018) | 995 | 967 | 973 |
| **MedSolutions Holdings, Inc. (6)** | Specialty Benefit Management | LIBOR Plus 5.25%, Current Coupon 6.50%, Secured Debt (Maturity - July 8, 2019) | 975 | 966 | 974 |
| **Mitel US Holdings, Inc. (6)** | Manufacturer of Battery Components | LIBOR Plus 4.50%, Current Coupon 7.00%, Secured Debt (Maturity - December 19, 2019) | 893 | 884 | 896 |
| **MP Assets Corporation (6)** | Manufacturer of Battery Components | LIBOR Plus 4.50%, Current Coupon 5.50%, Secured Debt (Maturity - December 19, 2019) | 1,000 | 990 | 998 |
| **National Vision, Inc. (6)** | Discount Optical Retailer | LIBOR Plus 5.75%, Current Coupon 7.00%, Secured Debt (Maturity - August 2, 2018) | 730 | 721 | 732 |
| **Neenah Foundry Company (6)** | Operator of Iron Foundries | LIBOR Plus 5.50%, Current Coupon 6.75%, Secured Debt (Maturity - August 26, 2017) | 12 | 12 | 12 |
| **NRC US Holding Company LLC (6)** | Environmental Services Provider | LIBOR Plus 4.50%, Current Coupon 5.50%, Secured Debt (Maturity - July 30, 2019) | 975 | 970 | 977 |
| **Orbitz Worldwide, Inc. (6) (7)** | Online Travel Agent | LIBOR Plus 4.75%, Current Coupon 5.75%, Secured Debt (Maturity - March 25, 2019) | 498 | 498 | 500 |

| | | | | | |
|---|---|---|---|---|---|
| **Panolam Industries International, Inc. (6)** | Decorative Laminate Manufacturer | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - August 23, 2017) | 905 | 897 | 875 |
| **Permian Holdings, Inc.** | Storage Tank Manufacturer | 10.50% Secured Bond (Maturity - January 15, 2018) | 910 | 888 | 896 |
| **Pitney Bowes Management Services Inc. (6)** | Provider of Document Management Services | LIBOR Plus 6.25%, Current Coupon 7.50%, Secured Debt (Maturity - October 1, 2019) | 998 | 988 | 1,005 |
| **Polyconcept Financial B.V. (6)** | Promotional Products to Corporations and Consumers | LIBOR Plus 4.75%, Current Coupon 6.00%, Secured Debt (Maturity - June 28, 2019) | 975 | 966 | 979 |
| **Ravago Holdings America, Inc. (6) (9)** | Polymers Distributor | LIBOR Plus 4.50%, Current Coupon 5.50%, Secured Debt (Maturity - December 20, 2020) | 1,250 | 1,238 | 1,253 |
| **Relativity Media, LLC** | Full-scale Film and Television Production and Distribution | 10.00% Secured Debt (Maturity - May 30, 2015) | 1,976 | 1,976 | 1,976 |
| **SCE Partners, LLC (6)** | Hotel & Casino Operator | LIBOR Plus 7.25%, Current Coupon 8.25%, Secured Debt (Maturity - August 14, 2019) | 1,000 | 990 | 930 |
| **Sotera Defense Solutions, Inc. (6)** | Defense Industry Intelligence Services | LIBOR Plus 6.00%, Current Coupon 7.50%, Secured Debt (Maturity - April 21, 2017) | 944 | 913 | 849 |
| **Sutherland Global Services, Inc. (6)** | Business Process Outsourcing Provider | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - March 6, 2019) | 963 | 945 | 965 |
| **Synagro Infrastructure Company, Inc. (6)** | Waste Management Services | LIBOR Plus 5.25%, Current Coupon 6.25%, Secured Debt (Maturity - August 22, 2020) | 998 | 978 | 989 |
| **TeleGuam Holdings, LLC (6)** | Cable and Telecom Services Provider | LIBOR Plus 4.00%, Current Coupon 5.25%, Secured Debt (Maturity - December 10, 2018) | 499 | 499 | 498 |
| | | LIBOR Plus 7.50%, Current Coupon 8.75%, Secured Debt (Maturity - June 10, 2019) | 1,000 | 1,006 | 1,005 |
| | | | | 1,505 | 1,503 |
| **Tervita Corporation (6) (7)** | Oil and Gas Environmental Services | LIBOR Plus 5.00%, Current Coupon 6.25%, Secured Debt (Maturity - May 15, 2018) | 996 | 990 | 1,002 |
| **The Topps Company, Inc. (6)** | Trading Cards & Confectionary | LIBOR Plus 6.00%, Current Coupon 7.25%, Secured Debt (Maturity - October 2, 2018) | 1,000 | 990 | 1,003 |
| **Therakos, Inc. (6)** | Immune System Disease Treatment | LIBOR Plus 6.25%, Current Coupon 7.50%, Secured Debt (Maturity - December 27, 2017) | 1,489 | 1,460 | 1,494 |
| **ThermaSys Corporation (6)** | Manufacturer of Industrial Heat Exchanges | LIBOR Plus 4.00%, Current Coupon 5.25%, Secured Debt (Maturity - May 3, 2019) | 1,500 | 1,482 | 1,489 |
| **Totes Isotoner Corporation (6)** | Weather Accessory Retail | LIBOR Plus 5.75%, Current Coupon 7.25%, Secured Debt (Maturity - July 7, 2017) | 944 | 952 | 949 |
| **Travel Leaders Group, LLC (6)** | Travel Agency Network Provider | LIBOR Plus 6.00%, Current Coupon 7.00%, Secured Debt (Maturity - December 5, 2018) | 1,500 | 1,470 | 1,481 |
| **Universal Fiber Systems, LLC (6)** | Manufacturer of Synthetic Fibers | LIBOR Plus 5.75%, Current Coupon 7.50%, Secured Debt (Maturity - June 26, 2015) | 1,699 | 1,678 | 1,707 |
| **Vantage Oncology, LLC** | Outpatient Radiation Oncology Treatment Centers | 9.50% Secured Bond (Maturity - August 7, 2017) | 1,000 | 1,000 | 1,030 |
| **Visant Corporation (6) (10)** | School Affinity Stores | LIBOR Plus 4.00%, Current Coupon 5.25%, Secured Debt (Maturity - December 22, 2016) | 691 | 691 | 683 |
| **Vision Solutions, Inc. (6)** | Provider of Information Availability Software | LIBOR Plus 4.50%, Current Coupon 6.00%, Secured Debt (Maturity - July 23, 2016) | 1,000 | 990 | 1,004 |
| **Walker & Dunlop Inc. (6) (7) (9)** | Real Estate Financial Services | LIBOR Plus 4.50%, Current Coupon 5.50%, Secured Debt (Maturity - December 20, 2020) | 750 | 743 | 746 |
| **YP Holdings LLC (6)** | Online and Offline Advertising Operator | LIBOR Plus 6.75%, Current Coupon 8.00%, Secured Debt (Maturity - June 4, 2018) | 700 | 682 | 709 |
| **Total Non-Control/Non-Affiliate Investments (2) (3) (4) (100% of total Portfolio Investments at fair value)** | | | | $ 66,410 | $ 66,882 |

(1) See Note 3 - *Fair Value Hierarchy for Investments* for summary geographic location of portfolio companies
(2) Non-Control/Non-Affiliate investments are defined by the Investment Company Act of 1940, as amended (the “1940 Act”) as investments that are neither Control investments nor Affiliate investments.
(3) Control investments are defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained. As of December 31, 2013, the Company did not own any Control investment.
(4) Affiliate investments are defined by the 1940 Act as investments in which between 5% and 25% of the voting securities are owned, or an investment in an investment company’s investment adviser, and the investments are not classified as Control investments. As of December 31, 2013, the Company did not own any Affiliate investments.
(5) Principal is net of payments. Cost represents amortized cost which is net of repayments and adjusted for the amortization of premiums and/or accretion of discounts, as applicable.
(6) Index based floating interest rate is subject to contractual minimum interest rates.
(7) The investment is not a qualifying asset under the 1940 Act. A business development company (“BDC”) may not acquire any asset other than qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC's total assets.
(8) Lower middle market investment.
(9) Investment is under contract to purchase and met trade date accounting criteria as of December 31, 2014. Settlement occurred after December 31, 2014. See Note 2 for summary of *Security Transactions.*
(10) Investment serviced by Main Street Partners pursuant to the Servicing Agreement. See Note 2 for summary of *Investment Classification.*

*See notes to the financial statements.*

**Note 1. Principal Business and Organization**

HMS Income Fund, Inc. (the “Company”) was formed as a Maryland corporation on November 28, 2011 under the General Corporation Law of the State of Maryland. The Company's predecessor-in-interest, HMS Income LLC, was formed with private placement investments from a Hines affiliate and an unaffiliated investor, which purchased an initial portfolio of investments from Main Street Capital Corporation ("Main Street") and obtained a credit facility from Main Street. The Company is an externally managed, non-diversified closed-end investment company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Company has elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

The Company’s primary investment objective is to generate current income through debt and equity investments. A secondary objective of the Company is to generate long-term capital appreciation through such investments. On December 16, 2011, the Company filed a registration statement on Form N-2, as amended (the “Registration Statement”) with the Securities and Exchange Commission (the “SEC”), which was declared effective on June 4, 2012, to register for sale up to 150,000,000 shares of common stock (the “Offering”). Prior to the effectiveness of the offering, the membership units of the predecessor-in-interest were merged into the Company (the "Merger Transaction"), and membership units were exchanged for shares of common stock.

As of December 31, 2014, the Company had raised approximately $295.2 million in the Offering, including proceeds from the distribution reinvestment plan of approximately $5.1 million.

The business of the Company is managed by HMS Adviser LP (the “Adviser”), a Texas limited partnership and affiliate of Hines Interests Limited Partnership (“Hines”), pursuant to an Investment Advisory and Administrative Services Agreement dated May 31, 2012, as amended (the “Advisory Agreement”). On May 31, 2012, the Company and the Adviser also retained Main Street, a New York Stock Exchange listed BDC, as the Company’s investment sub-adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), pursuant to an Investment Sub-Advisory Agreement (the “Sub-Advisory Agreement”) to identify, evaluate, negotiate and structure prospective investments, make investment and portfolio management recommendations for approval by the Adviser, monitor the Company’s investment portfolio and provide certain ongoing administrative services to the Adviser. Main Street obtained a no-action letter from the SEC in November 2013 that permitted it to assign investment sub-adviser duties under the Sub-Advisory Agreement to MSC Adviser I, LLC (“MSC Adviser”), a wholly owned subsidiary of Main Street, and Main Street assigned such duties, and the Sub-Advisory Agreement was amended to reflect such change on December 31, 2013. The term “Sub-Adviser,” as used herein, refers to Main Street until December 31, 2013 and MSC Adviser thereafter. The Adviser and Sub-Adviser are collectively referred to herein as the “Advisers.” Upon the execution of the Sub-Advisory Agreement, Main Street became an affiliate of the Company. The Company has engaged Hines Securities, Inc. (the “Dealer Manager”), an affiliate of the Adviser, to serve as the dealer manager for the Offering. The Dealer Manager is responsible for marketing the Company’s shares of common stock being offered pursuant to the Offering.

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company and its wholly-owned consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Under the investment company rules and regulations pursuant to Article 6 of Regulation S-X, the Company is precluded from consolidating portfolio company investments, including those in which it has a controlling interest, unless the portfolio company is another investment company. An exception to this general principle occurs if the Company owns a controlled operating company whose purpose is to provide services directly to the Company such as an investment adviser or transfer agent. None of the investments made by the Company qualify for this exception. Therefore, the Company’s portfolio investments are carried on the balance sheet at fair value, as discussed below, with changes to fair value recognized as “Net Unrealized Appreciation (Depreciation)” on the Statement of Operations until the investment is realized, usually upon exit, resulting in any gain or loss on exit being recognized as a realized gain or loss.

*Transactions Between Entities of Common Control*

As discussed above, effective May 31, 2012, HMS Income LLC merged with and into the Company. When evaluating the accounting for this transaction, the Company determined that this was a transaction between entities under common control. Consistent with this determination, the Company recognized the assets and liabilities transferred from HMS Income LLC at their carrying amounts at the time of the Merger Transaction. The Company has reported the results of operations and cash flows for the period prior to which the Merger Transaction occurred as though the exchange of equity interests had occurred at the beginning of the period.

*Reclassifications*

In Note 3 - *Fair Value Hierarchy for Investments* and throughout, certain loans that were previously presented as "Private placement investments" are now presented as "Private Loans." The prior periods have been reclassified to conform to this presentation as of December 31, 2014.

*Use of Estimates*

The preparation of the financial statements requires the Company to make estimates and judgments that affect the reported amounts and disclosures of assets, liabilities and contingencies as of the date of the financial statements and accompanying notes. The Company evaluates its assumptions and estimates on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Additionally, application of the Company's accounting policies involves exercising judgments regarding assumptions as to future uncertainties. Actual results may differ from these estimates under different assumptions or conditions. Significant estimates are used in the determination of fair value of investments. See Note 3 - *Fair Value Hierarchy for Investments* for a description of these estimates.

*Investment Classification*

The Company classifies its investments in accordance with the requirements of the 1940 Act. Under the 1940 Act, (a) "Control" investments are defined as investments in companies in which the Company owns more than 25% of the voting securities or has rights to nominate greater than 50% of the directors or managers of the companies, (b) "Affiliate" investments are defined as investments in which between 5% and 25% of the voting securities are owned, or an investment in an investment company's investment adviser, and the investments are not classified as Control investments and (c) "Non-Control/Non-Affiliate" investments are defined as investments that are neither Control investments nor Affiliated investments.

On December 12, 2011, HMS Income LLC acquired interests in 17 investments from Main Street and certain of its affiliates for approximately $16.5 million, (the "Purchase Transaction"), as evidenced by an Assignment and Assumption Agreement (the "Assignment Agreement"). Concurrently with the Purchase Transaction, HMS Income LLC and Main Street Partners entered into a Servicing Agreement (the "Servicing Agreement"), pursuant to which Main Street Partners agreed to perform certain services for HMS Income LLC with respect to investments acquired in the Purchase Transaction. As of December 31, 2014, the Company owned zero investments with respect to which Main Street Partners continues to provide service pursuant to the Servicing Agreement.

The legal nature of the Purchase Transaction and the intent of both HMS Income LLC and Main Street was to effectuate a sale, thereby providing HMS Income LLC with an ownership of undivided interests in the acquired investments. In evaluating the transaction for sale accounting under the Accounting Standards Codification ("Codification" or "ASC") 860, *Transfers and Servicing ("ASC 860")*, it was determined that, due to certain provisions within the Servicing Agreement, the investments acquired in the Purchase Transaction represented a secured loan to Main Street. The interest income related to these investments is reported as interest income of Affiliate investments for the period from June 1, 2012 to November 1, 2012 on the statement of operations.

On November 2, 2012, we and Main Street and its affiliates amended the Assignment Agreement and amended and restated the Servicing Agreement to conform the Assignment Agreement and the Servicing Agreement with the intent of the parties at the time of the consummation of the Purchase Transaction and to account for certain changed facts and circumstances. As a result of the amended Assignment and the amended and restated Servicing Agreement, as of November 2, 2012, the Purchase Transaction was, and for the subsequent periods thereafter will continue to be, reported as a sale for accounting purposes under ASC 860 in the financial statements and the related investments will be classified as Non-Control/Non-Affiliate investments.

*Valuation of Portfolio Investments*

The Company accounts for its portfolio investments at fair value under the provisions of the Financial Accounting Standards Board ("FASB") ASC 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 requires the Company to assume that the portfolio investment is to be sold in the principal market to independent market participants, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal market that are independent, knowledgeable, and willing and able to transact.

The Company’s portfolio strategy calls for it to invest primarily in illiquid debt and equity securities issued by lower middle market ("LMM") companies, which generally have annual revenues between $10 million and $150 million, and debt securities issued by Middle Market companies that are generally larger in size than the LMM companies. The Company categorizes some of its investments in LMM companies and Middle Market companies as Private Loan portfolio investments, which are primarily debt securities issued by companies that are consistent in size with either the LMM companies or Middle Market companies, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. The structure, terms and conditions for these Private Loan investments are typically consistent with the structure, terms and conditions for the investments made in its LMM portfolio or Middle Market portfolio. The Company’s portfolio also includes Other Portfolio investments which primarily consist of investments that are not consistent with the typical profiles for its LMM portfolio investments, Middle Market portfolio investments or Private Loan portfolio investments, including investments which may be managed by third parties. The Company’s portfolio investments may be subject to restrictions on resale.

LMM investments and Other Portfolio investments generally have no established trading market, while Middle Market securities generally have established markets that are not active. Private Loan investments may include investments which have no established trading market or have established markets that are not active. The Company determines in good faith the fair value of its investment portfolio pursuant to a valuation policy in accordance with ASC 820 and a valuation process approved by its Board of Directors and in accordance with the 1940 Act. The Company’s valuation policies and processes are intended to provide a consistent basis for determining the fair value of the portfolio.

For LMM portfolio investments, the Company generally reviews external events, including private mergers, sales and acquisitions involving comparable companies, and includes these events in the valuation process by using an enterprise value waterfall ("Waterfall") for its LMM equity investments and an income approach using a yield-to-maturity model ("Yield-to-Maturity") for its LMM debt investments. For Middle Market portfolio investments, the Company uses observable inputs such as quoted prices in the valuation process. The Company determines the appropriateness of the use of third-party broker quotes, if any, in determining fair value based on its understanding of the level of actual transactions used by the broker to develop the quote and whether the quote was an indicative price or binding offer, the depth and consistency of broker quotes and the correlation of changes in broker quotes with underlying performance of the portfolio company and other market indices. The Company often cannot observe the inputs considered by the third party in determining their quotes. For Middle Market and Private Loan portfolio investments in debt securities for which it has determined that third-party quotes or other independent pricing are not available or appropriate, the Company generally estimates the fair value based on the assumptions that it believes hypothetical market participants would use to value the investment in a current hypothetical sale using the Yield-to-Maturity valuation method. For its Other Portfolio equity investments, the Company generally calculates the fair value of the investment primarily based on the net asset value ("NAV") of the fund. All of the valuation approaches for the Company's portfolio investments estimate the value of the investment as if the Company was to sell, or exit, the investment as of the measurement date.

Under the Waterfall valuation method, the Company estimates the enterprise value of a portfolio company using a combination of market and income approaches or other appropriate valuation methods, such as considering recent transactions in the equity securities of the portfolio company or third-party valuations of the portfolio company, and then performs a waterfall calculation by using the enterprise value over the portfolio company's securities in order of their preference relative to one another. The enterprise value is the fair value at which an enterprise could be sold in a transaction between two willing parties, other than through a forced or liquidation sale. Typically, private companies are bought and sold based on multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), cash flows, net income, revenues, or in limited cases, book value. There is no single methodology for estimating enterprise value. For any one portfolio company, enterprise value is generally described as a range of values from which a single estimate of enterprise value is derived. In estimating the enterprise value of a portfolio company, the Company analyzes various factors including the portfolio company's historical and projected financial results. The operating results of a portfolio company may include unaudited, projected, budgeted or pro forma financial information and may require adjustments for non-recurring items or to normalize the operating results that may require significant judgment in its determination. In addition, projecting future financial results requires significant judgment regarding future growth assumptions. In evaluating the operating results, the Company also analyzes the impact of exposure to litigation, loss of customers or other contingencies. After determining the appropriate enterprise value, the Company allocates the enterprise value to investments in order of the legal priority of the various components of the portfolio company's capital structure. In applying the Waterfall valuation method, the Company assumes the loans are paid off at the principal amount in a change in control transaction and are not assumed by the buyer, which the Company believes is consistent with its past transaction history and standard industry practices.

Under the Yield-to-Maturity valuation method, the Company also uses the income approach to determine the fair value of debt securities based on projections of the discounted future free cash flows that the debt security will likely generate, including analyzing the discounted cash flows of interest and principal amounts for the debt security, as set forth in the associated loan agreements, as well as the financial position and credit risk of the portfolio investments. The Company's estimate of the expected repayment date of its debt securities is generally the legal maturity date of the instrument, as the Company generally intends to hold its loans and debt securities to maturity. The Yield-to-Maturity analysis also considers changes in leverage levels, credit quality, portfolio company performance and other factors. The Company will generally use the value determined by the Yield-to-Maturity analysis as the fair value for that security. However, it is the Company's position that assuming a borrower is outperforming underwriting expectations and because these respective investments do not generally contain pre-payment penalties, the borrower would most likely prepay or refinance the borrowing if the market interest rate, given the borrower's credit quality, is lower than the stated loan interest rate. Therefore, the Company does not believe that a market participant would pay a premium for the investment, and because of the Company's general intent to hold its loans to maturity, the Company generally does not believe that the fair value of the investment should be adjusted in excess of the face amount. A change in the assumptions that the Company uses to estimate the fair value of its debt securities using the Yield-to-Maturity valuation method could have a material impact on the determination of fair value. If there is deterioration in credit quality or if a debt security is in workout status, the Company may consider other factors in determining the fair value of the debt security, including the value attributable to the debt security from the enterprise value of the portfolio company or the proceeds that would most likely be received in a liquidation analysis.

Under the NAV valuation method, for an investment in an investment fund that does not have a readily determinable fair value, the Company measures the fair value of the investment predominately based on the NAV of the investment fund as of the measurement date. However, in determining the fair value of the investment, the Company may consider whether adjustments to the NAV are necessary in certain circumstances, based on the analysis of any restrictions on redemption of the Company's investment as of the measurement date, recent actual sales or redemptions of interests in the investment fund, and expected future cash flows available to equity holders, including the rate of return on those cash flows compared to an implied market return on equity required by market participants, or other uncertainties surrounding the Company's ability to realize the full NAV of its interests in the investment fund.

Pursuant to its internal valuation process and the requirements under the 1940 Act, the Company performs valuation procedures on its investments in each LMM portfolio company once a quarter. In addition to its internal valuation process, in arriving at estimates of fair value for its investments in its LMM portfolio companies, the Company, among other things, consults with a nationally recognized independent advisor. The nationally recognized independent advisor is generally consulted relative to the Company's investments in each LMM portfolio company at least once in every calendar year, and for the Company's investments in new LMM portfolio companies, at least once in the twelve-month period subsequent to the initial investment. In certain instances, the Company may determine that it is not cost-effective, and as a result is not in its stockholders' best interest, to consult with the nationally recognized independent advisor on its investments in one or more LMM portfolio companies. Such instances include, but are not limited to, situations where the fair value of the Company's investment in a LMM portfolio company is determined to be insignificant relative to the total Investment Portfolio. The Company consulted with its independent advisor in arriving at the Company's determination of fair value on its investments in a total of two LMM portfolio companies for the year ended December 31, 2014, representing approximately 8.2% of the total LMM portfolio at fair value as of December 31, 2014 and on a total of zero LMM portfolio companies for the year ended December 31, 2013, representing approximately 0.0% of the total LMM portfolio at fair value as of December 31, 2013.

Due to the inherent uncertainty in the valuation process, the Company's estimate of fair value may differ materially from the values that would have been used had an active market for the securities existed. In addition, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the amounts ultimately realized upon sale, liquidation or other exit of these investments to be materially different than the valuations currently assigned. The Company estimates the fair value of each individual investment and records changes in fair value as unrealized appreciation (depreciation) in the consolidated Statements of Operations.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less at the date of purchase. Cash and cash equivalents are carried at cost, which approximates fair value.

*Security Transactions*

Security transactions are accounted for on the trade date. As of the trade date, the investment is derecognized for security sales and recognized for security purchases. As of December 31, 2014, and December 31, 2013, the Company had eleven and nine investments at contract prices of $50.5 million and $8.8 million, respectively, under contract to purchase which had not yet settled. These investments have been recognized by the Company and are included in the schedule of investments. The settlement obligations are presented in the line item "Payable for securities purchased" at the contract price. As of December 31, 2014 and

December 31, 2013, the Company had three and zero investments at contract prices of $3.0 million and $0.0 million, respectively, under contract to sell which had not yet settled. These investments were derecognized by the Company and are not included in the schedule of investments. The sale trades are presented in the line item "Receivable for securities sold" at the contract price.

*Interest Income*

Interest income is recorded on the accrual basis to the extent amounts are expected to be collected. Prepayment penalties received by the Company are recorded as income upon receipt. Accrued interest is evaluated for collectability. When a debt security becomes 90 days or more past due and the Company does not expect the debtor to be able to service all of its debt or other obligations, the debt security will generally be placed on non-accrual status and the Company will cease recognizing interest income on that debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. Additionally, if a debt security has deferred interest payment terms and the Company becomes aware of a deterioration in credit quality, the Company will evaluate the collectability of the deferred interest payment. If it is determined that the deferred interest is unlikely to be collected, the Company will place the security on non-accrual status and cease recognizing interest income on that debt security until the borrower has demonstrated the ability and intent to pay the contractual amounts due. If a debt security's status significantly improves with respect to the debtor's ability to service the debt or other obligations, or if a debt security is fully impaired, sold or written off, it will be removed from non-accrual status. As of December 31, 2014 and December 31, 2013, the Company did not have any investments that were more than 90 days past due. As of December 31, 2014 and December 31, 2013, the Company had two and zero investments, respectively on non-accrual status. The investments on non-accrual status as of December 31, 2014 represent two loans to one portfolio company, which experienced a significant decline in credit quality raising doubt around the Company's ability to collect the principal and interest contractually due. All interest due under these investments was deferred, with no current interest payments required to be made. Given the credit deterioration, no interest income has been recognized on these investments during the year ended December 31, 2014. Aside from these two investments on non-accrual status as of December 31, 2014, the Company is not aware of any material changes to the creditworthiness of the borrowers underlying its debt investments.

From time to time, the Company may hold debt instruments in its investment portfolio that contain a payment-in-kind ("PIK") interest provision. If these borrowers elect to pay or are obligated to pay interest under the optional PIK provision, and if deemed collectible in management's judgment, then the interest would be computed at the contractual rate specified in the investment's credit agreement, recorded as interest income and periodically added to the principal balance of the investment. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. As of December 31, 2014 and 2013 the Company held four and zero investments, respectively, which contained a PIK provision. As discussed above, two of the four investments with PIK provisions, as of December 31, 2014, were on non-accrual status and no PIK income was recorded on these investments during the year ended December 31, 2014. For the years ended December 31, 2014, 2013 and 2012, the Company capitalized $274,000, $80,000 and $25,000, respectively, of PIK interest income.

*Unearned Income – Original Issue Discount / Premium to Par Value*

The Company may purchase debt investments at a value different than par value. For purchases at less than par value, a discount is recorded, which is accreted into interest income based on the effective interest method over the life of the debt investment. For purchases at greater than par value, a premium is recorded, which is amortized as a reduction to interest income based on the effective interest method over the life of the investment. Upon repayment or sale, any unamortized discount or premium is also amortized as an adjustment to interest income. For the years ended December 31, 2014, 2013 and 2012 the Company accreted a net $1.1 million, $194,000 and $146,000 respectively, into interest income.

*Net Realized Gains or Losses from Investments and Net Change in Unrealized Appreciation (Depreciation) from Investments*

Generally, net realized gains or losses are measured by the difference between the net proceeds from the sale or redemption of an investment and the principal amount, without regard to unrealized appreciation or depreciation previously recognized. Net change in unrealized appreciation or depreciation from investments reflects the net change in the fair value of the investment portfolio and the reclassification of any prior period unrealized appreciation (depreciation) on exited investments to realized gains or losses.

*Due from Main Street*

Due from Main Street represents principal and interest payments from portfolio investments serviced and received by Main Street on the Company's behalf. The amounts due to the Company as of December 31, 2013 were subsequently collected in January 2014. There were no amounts due from Main Street as of December 31, 2014.

*Deferred Financing Costs*

Deferred financing costs represent fees and other direct costs incurred in connection with arranging the Company's borrowings. These costs were incurred in connection with the Company's revolving credit facilities (see Note 4- *Borrowings* for a discussion regarding the Company's Credit Facility, Syndicated Credit Facility and HMS Funding Facility) and have been capitalized. The deferred financing costs are being amortized to interest expense using the straight-line method over the life of the related credit facility, which the Company believes is materially consistent with the effective interest method. For the years ended December 31, 2014, 2013 and 2012, the Company amortized approximately $438,000, $94,000, and $77,000 respectively, into interest expense related to deferred financing costs. Further, in May 2012, upon the retirement of the Main Street facility, all unamortized deferred financing costs incurred in connection with the Main Street Facility were fully amortized and written-off to interest expense.

*Organizational and Offering Costs*

In accordance with the Advisory Agreement and the Sub-Advisory Agreement, the Company will reimburse the Adviser and Sub-Adviser for any organizational expenses and Offering costs that are paid on the Company's behalf, which consist of, among other costs, expenses of the Company's organization, actual legal, accounting, bona fide out-of-pocket itemized and detailed due diligence costs, printing, filing fees, transfer agent costs, postage, escrow fees, data processing fees, advertising and sales literature and other Offering-related costs. Pursuant to the terms of the Advisory Agreement and Sub-Advisory Agreement, the Advisers are responsible for the payment of Offering costs to the extent they exceed 1.5% of the aggregate gross proceeds from the Offering.

As of December 31, 2014 and December 31, 2013, the Adviser and Sub-Adviser incurred approximately $6.8 million and $4.3 million, respectively, of Offering costs on the Company's behalf. Upon the execution of the Advisory Agreement and Sub-Advisory Agreement, on May 31, 2012, the Company recorded a due to affiliates liability and capitalized the deferred Offering costs as it is expected that aggregate gross proceeds from the Offering will be at a level that will require the Company to reimburse the Advisers for these costs. As of December 31, 2014, the balance of the due to affiliate liability related to organizational and Offering costs was $2.4 million. On a regular basis, management reviews capital raise projections to evaluate the likelihood of the capital raise reaching a level that would require the Company to reimburse the Adviser for the offering costs incurred on the Company's behalf. Based on the $6.8 million of offering costs incurred by the Adviser through December 31, 2014, the Company would have to raise approximately $453.3 million to be obligated to reimburse the Adviser for all of these costs. Commencing with the Company's initial closing, which occurred on September 17, 2012, and continuing with every closing thereafter, 1.5% of the proceeds of such closings will be amortized as a charge to additional paid in capital and a reduction of deferred Offering costs, until such asset is fully amortized. As of December 31, 2014, approximately $4.4 million has been amortized. The Company expects to reimburse the Advisers for such costs incurred on its behalf on a monthly basis up to a maximum aggregate amount of 1.5% of the gross Offering proceeds. Pursuant to the terms of the Advisory Agreement and Sub-Advisory Agreement, the Adviser and Sub-Adviser will be responsible for the payment of organizational and Offering expenses to the extent they exceed 1.5% of gross proceeds from the Offering.

*Payable for Unsettled Trades*

The Company accepts stockholders' subscriptions on a weekly basis. For subscriptions received, for which shares of common stock were not issued by December 31, 2014, and December 31, 2013, the amounts of such subscriptions are presented as cash and as a payable for unsettled trades. The shares issued in exchange for the subscriptions were issued and outstanding on January 2, 2015, and January 2, 2014, respectively.

*Per Share Information*

Net increase(decrease) in net assets resulting from operations per share, net investment income per share, and net realized income per share are calculated based upon the weighted average number of shares of common stock outstanding during the reporting period. The weighted average share amount was calculated assuming the shares of common stock issued as part of the Merger Transaction were outstanding from the beginning of the period.

*Concentration of Credit Risk*

The Company has cash deposited in a financial institution in excess of federally insured levels. Management regularly monitors the financial stability of these financial institutions in an effort to manage the Company's exposure to any significant credit risk in cash. The Federal Deposit Insurance Corporation generally only insures limited amounts per depositor per insured bank.

*Fair Value of Financial Instruments*

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash, accounts receivable from affiliates, interest payable to affiliates, other accrued expenses and liabilities, and notes payable approximate the fair values of such items.

*Recent Accounting Pronouncements*

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2013-04, Liabilities (Topic 405): *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* ("ASU 2013-04"). ASU 2013-04 provides additional guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. Public companies are required to apply ASU 2013-04 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company's financial statements.

In June 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2013-08, Financial Services—Investment Companies (Topic 946): *Amendments to the Scope, Measurement, and Disclosure Requirements* ("ASU 2013-08"). ASU 2013-08 amends the criteria that define an investment company, clarifies the measurement guidance and requires certain additional disclosures. Public companies are required to apply ASU 2013-08 prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company's financial statements.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-9 supersedes the revenue recognition requirements under ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. The new guidance is effective for the annual reporting period beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact the adoption of this new accounting standard will have on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The core objective of this guidance is that management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. The provisions of ASU No. 2014-15 are effective as of December 31, 2016, and early adoption is permitted. The Company does not expect the adoption of this update to have a material impact on its financial statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. The Company believes that the impact of recently issued standards that have been issued and any that are not yet effective will not have a material impact on its financial statements upon adoption.

**Note 3 — Fair Value Hierarchy for Investments**

*Fair Value Hierarchy*

ASC 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Based on the observability of the inputs used in the valuation techniques, the Company is required to provide disclosures on fair value measurements according to the fair value hierarchy. The fair value hierarchy ranks the observability of the inputs used to determine fair values. Investments carried at fair value are classified and disclosed in one of the following three categories:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable for essentially the full term of the investment. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in non-active markets (for example, thinly traded public companies), pricing models whose inputs are observable for substantially the full term of the investment, and pricing models whose inputs are derived principally from or corroborated by, observable market data through correlation or other means for substantially the full term of the investment.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Such information may be the result of consensus pricing information or broker quotes for which sufficient observable inputs were not available.

As required by ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such investments categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). The Company conducts reviews of fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain investments.

The Company's investment portfolio as of December 31, 2014 was comprised of debt securities and equity investments. The Company's investment portfolio as of December 31, 2013 was comprised exclusively of debt securities. The fair value determination for these investments primarily consisted of both observable (Level 2) and unobservable (Level 3) inputs.

As of December 31, 2014 and December 31, 2013, all of the Company's LMM portfolio investments consisted of illiquid securities issued by private companies. The fair value determination for the LMM portfolio investments primarily consisted of unobservable inputs. As a result, all of the Company's LMM portfolio investments were categorized as Level 3 as of December 31, 2014 and December 31, 2013.

As of December 31, 2014 and December 31, 2013, the Company's Middle Market portfolio investments consisted primarily of private placement investments in secured and unsecured debt investments and independently rated debt investments. The fair value determination for these investments consisted of a combination of observable inputs in non-active markets for which sufficient observable inputs were available to determine the fair value of these investments, observable inputs in the non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and unobservable inputs. As a result, a portion of the Company's Middle Market portfolio investments were categorized as Level 2 as of December 31, 2013. For those Middle Market portfolio investments for which sufficient observable inputs were not available to determine fair value of the investments, the Company categorized such investments as Level 3 as of December 31, 2014 and December 31, 2013.

As of December 31, 2014 and December 31, 2013, the Company's Private Loan portfolio investments primarily consisted of investments in interest-bearing debt securities in companies that are consistent with the size of companies in our LMM portfolio or our Middle Market portfolio, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. The fair value determination for these investments consisted of a combination of observable inputs in non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and unobservable inputs. As a result, all of the Company's Private Loan portfolio investments were categorized as Level 3 as of December 31, 2014 and December 31, 2013.

As of December 31, 2014, the Company's Other Portfolio investments consisted of illiquid securities issued by private companies. The fair value determination for these investments primarily consisted of unobservable inputs. As a result, all of the Company's Other Portfolio equity investments were categorized as Level 3 as of December 31, 2014. The Company had zero Other Portfolio investments as of December 31, 2013.

The fair value determination of the Level 3 securities required one or more of the following unobservable inputs:

- Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;
- Current and projected financial condition of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- Type and amount of collateral, if any, underlying the investment;

- Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio, and net debt/EBITDA ratio) applicable to the investment;
- Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);
- Pending debt or capital restructuring of the portfolio company;
- Projected operating results of the portfolio company;
- Current information regarding any offers to purchase the investment;
- Current ability of the portfolio company to raise any additional financing as needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment;
- Third party pricing for securities with limited observability of inputs determining the pricing; and
- Other factors deemed relevant.

The following table presents fair value measurements of the Company's investments, by major class, as ofDecember 31, 2014 according to the fair value hierarchy (in thousands):

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| First lien secured debt investments | $ — | $ — | $ 375,038 | $ 375,038 |
| Second lien secured debt investments | — | — | 85,191 | 85,191 |
| Equity investments | — | — | 11,383 | 11,383 |
| Unsecured debt investments | — | — | 2,250 | 2,250 |
| Total | $ — | $ — | $ 473,862 | $ 473,862 |

The following table presents fair value measurements of the Company's investments, by major class, as ofDecember 31, 2013 according to the fair value hierarchy (in thousands):

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| First lien secured debt investments | $ — | $ 4,728 | $ 59,686 | $ 64,414 |
| Second lien secured debt investments | — | — | 2,468 | 2,468 |
| Total | $ — | $ 4,728 | $ 62,154 | $ 66,882 |

The following table presents fair value measurements of the Company's investments segregated by the level within the fair value hierarchy as ofDecember 31, 2014 (in thousands):

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| LMM portfolio investments | $ — | $ — | $ 33,616 | $ 33,616 |
| Private Loan investments | — | — | 47,655 | 47,655 |
| Private placement investments | — | — | 391,016 | 391,016 |
| Other portfolio investments | — | — | 1,575 | 1,575 |
| Total | $ — | $ — | $ 473,862 | $ 473,862 |

The following table presents fair value measurements of the Company's investments segregated by the level within the fair value hierarchy as of December 31, 2013 (in thousands):

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| LMM portfolio investments | $ — | $ — | $ 1,500 | $ 1,500 |
| Private Loan investments | — | — | 2,906 | 2,906 |
| Private placement investments | — | 4,728 | 57,748 | 62,476 |
| Total | $ — | $ 4,728 | $ 62,154 | $ 66,882 |

The significant unobservable inputs used in the fair value measurement of the Company's LMM equity securities, which are generally valued through an average of the discounted cash flow technique and the market comparable/enterprise value technique (unless one of these approaches is not applicable), are (i) EBITDA multiples and (ii) the weighted average cost of capital ("WACC"). Significant increases (decreases) in EBITDA multiple inputs in isolation would result in a significantly higher (lower) fair value measurement. Conversely, significant increases (decreases) in WACC inputs in isolation would result in a significantly lower (higher) fair value measurement. The significant unobservable inputs used in the fair value measurement of the Company's LMM, Middle Market and Private Loan debt investments are (i) risk adjusted discount rates used in the yield-to-maturity valuation technique (described in Note 2 - Valuation of Portfolio Investments) and (ii) the percentage of expected principal recovery. Significant increases (decreases) in any of these discount rates in isolation would result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in any of these expected principal recovery percentages in isolation would result in a significantly higher (lower) fair value measurement. However, due to the nature of certain investments, fair value measurements may be based on other criteria, such as third-party appraisals of collateral and fair values as determined by independent third parties, which are not presented in the table below.

The following table, which is not intended to be all inclusive, presents the significant unobservable input of the Company's Level 3 investments as of December 31, 2014 (in thousands):

| | Fair Value | Valuation Technique | Significant Unobservable Input | Range | Weighted Average (2) |
|---|---|---|---|---|---|
| LMM equity investments | $ 9,808 | Discounted Cash Flows | Weighted Average Cost of Capital | N/A | 21.2% |
| | | Market Approach/Enterprise Value | EBITDA Multiples (1) | 4.2x - 8.5x | 6.2x |
| LMM debt portfolio investments | $ 23,808 | Discounted Cash Flows | Expected Principal Recovery | N/A | 100.0% |
| | | | Risk Adjusted Discount Factor | 10% - 12% | 11.0% |
| Private Loan investments | $ 26,713 | Market Approach | Third Party Quotes | 100% - 102% | 100.5% |
| Private Loan investments | $ 20,942 | Discounted Cash Flows | Expected Principal Recovery | 42% - 100% | 95.0% |
| | | | Risk Adjusted Discount Factor | 5% - 10% | 7.5% |
| Private placement investments | $ 391,016 | Market Approach | Third Party Quotes | 67% - 102% | 96.3% |
| Other portfolio investments | $ 1,575 | Market Approach | Net Asset Value | N/A | N/A |
| | $ 473,862 | | | | |

(1) EBITDA may include proforma adjustments and/or other add-backs based on specific circumstances related to each investment.
(2) Weighted average excludes investments for which the significant unobservable input was not utilized in the fair value determination.

The following table, which is not intended to be all inclusive, presents the significant unobservable input of the Company's Level 3 investments as of December 31, 2013 (in thousands):

| | Fair Value | Valuation Technique | Significant Unobservable Input | Range | Weighted Average |
|---|---|---|---|---|---|
| LMM debt portfolio investments | $ 1,500 | Discounted Cash Flows | Expected Principal Recovery | N/A | 100.0% |
| | | | Risk Adjusted Discount Factor | 12% - 18% | 15.0% |
| Private Loan investments | $ 2,906 | Market Approach | Third Party Quotes | 99% - 100% | 99.8% |
| Private placement investments | $ 57,748 | Market Approach | Third Party Quotes | 88% - 103% | 99.7% |
| | $ 62,154 | | | | |

The following table provides a summary of changes in fair value of the Company's Level 3 portfolio investments for theyear ended December 31, 2014 (in thousands):

| Type of Investment | January 1, 2014 Fair Value | Transfers Into Level 3 Hierarchy | Payment-in-Kind Interest Accrual | New Investments (1) | Sales/ Repayments | Net Unrealized Appreciation (Depreciation) | Net Realized Gain (Loss) | December 31, 2014 Fair Value |
|---|---|---|---|---|---|---|---|---|
| LMM Equity | $ — | $ — | $ — | $ 9,808 | $ — | $ — | $ — | $ 9,808 |
| LMM Debt | 1,500 | — | — | 22,381 | (90) | 17 | — | 23,808 |
| Private Loans | 2,906 | — | 274 | 46,408 | (130) | (1,803) | — | 47,655 |
| Private Placement | 57,748 | 4,728 | — | 440,106 | (99,158) | (12,428) | 20 | 391,016 |
| Other | — | — | — | 1,575 | — | — | — | 1,575 |
| Total | $ 62,154 | $ 4,728 | $ 274 | $ 520,278 | $ (99,378) | $ (14,214) | $ 20 | $ 473,862 |

The following table provides a summary of changes in fair value of the Company's Level 3 portfolio investments for theyear ended December 31, 2013 (in thousands):

| Type of Investment | January 1, 2013 Fair Value | Transfers Into Level 3 Hierarchy | Payment-in-Kind Interest Accrual | New Investments (1) | Sales/ Repayments | Net Unrealized Appreciation (Depreciation) | Net Realized Gain (Loss) | December 31, 2013 Fair Value |
|---|---|---|---|---|---|---|---|---|
| LMM | $ 4,332 | $ — | $ — | $ — | $ (2,832) | $ — | $ — | $ 1,500 |
| Private Loans | — | — | — | 2,990 | (24) | (60) | — | 2,906 |
| Private Placement | — | 9,696 | — | 61,144 | (13,587) | 468 | 27 | 57,748 |
| Total | $ 4,332 | $ 9,696 | $ — | $ 64,134 | $ (16,443) | $ 408 | $ 27 | $ 62,154 |

(1) Column includes changes to investments due to the net accretion of discounts/premiums and amortization of fees.

For the years ended December 31, 2014 and 2013, there were transfers of $4.7 million and $9.7 million, respectively, between Level 2 and Level 3 portfolio investments. The transfers represent private placement investments which are valued based upon third party quotes with limited activity and observability of inputs. In prior periods, these were classified as Level 2 fair value measurements. As of December 31, 2014, the Company obtained information regarding the quotes, including the number of quotes used to value these investments. Given the lack of observable inputs of the third party quotes, these investments were determined to be Level 3 fair value measurements as of December 31, 2014.

*Portfolio Investment Composition*

The composition of the Company's investments as of December 31, 2014, at cost and fair value, was as follows (in thousands):

| | Investments at Cost | Cost Percentage of Total Portfolio | Investments at Fair Value | Fair Value Percentage of Total Portfolio |
|---|---|---|---|---|
| First lien secured debt investments | $ 385,937 | 79.1 % | $ 375,038 | 79.1 % |
| Second lien secured debt investments | 87,710 | 18.1 % | 85,191 | 18.0 % |
| Equity investments | 11,308 | 2.3 % | 11,308 | 2.4 % |
| Unsecured debt investments | 2,574 | 0.5 % | 2,250 | 0.5 % |
| Equity warrants | 75 | — % | 75 | — % |
| Total | $ 487,604 | 100.0 % | $ 473,862 | 100.0 % |

The composition of the Company's investments as of December 31, 2013, at cost and fair value, was as follows (in thousands):

| | Investments at Cost | Cost Percentage of Total Portfolio | Investments at Fair Value | Fair Value Percentage of Total Portfolio |
|---|---|---|---|---|
| First lien secured debt investments | $ 63,945 | 96.3 % | $ 64,414 | 96.3 % |
| Second lien secured debt investments | 2,465 | 3.7 % | 2,468 | 3.7 % |
| Total | $ 66,410 | 100.0 % | $ 66,882 | 100.0 % |

The composition of the Company's investments by geographic region of the United States as of December 31, 2014, at cost and fair value, was as follows (in thousands) (since the Other Portfolio investment does not represent a single geographic region, this information excludes Other Portfolio investments):

| | **December 31, 2014** | | | |
|---|---|---|---|---|
| | Investments at Cost | Cost Percentage of Total Portfolio | Investments at Fair Value | Fair Value Percentage of Total Portfolio |
| Northeast | $ 128,556 | 26.5 % | $ 127,734 | 27.0 % |
| Southeast | 116,737 | 24.0 % | 116,803 | 24.7 % |
| West | 77,402 | 15.9 % | 73,993 | 15.7 % |
| Southwest | 85,291 | 17.5 % | 77,183 | 16.3 % |
| Midwest | 57,270 | 11.8 % | 56,970 | 12.1 % |
| Non-United States | 20,773 | 4.3 % | $ 19,604 | 4.2 % |
| Total | $ 486,029 | 100.0 % | $ 472,287 | 100.0 % |

The composition of the Company's investments by geographic region of the United States as of December 31, 2013, at cost and fair value, was as follows (in thousands):

| | **December 31, 2013** | | | |
|---|---|---|---|---|
| | Investments at Cost | Cost Percentage of Total Portfolio | Investments at Fair Value | Fair Value Percentage of Total Portfolio |
| Northeast | $ 20,459 | 30.8 % | $ 20,611 | 30.8 % |
| Southeast | 11,674 | 17.6 % | 11,771 | 17.6 % |
| West | 9,254 | 13.9 % | 9,358 | 14.0 % |
| Southwest | 9,545 | 14.4 % | 9,645 | 14.4 % |
| Midwest | 11,569 | 17.4 % | 11,575 | 17.3 % |
| Non-United States | 3,909 | 5.9 % | 3,922 | 5.9 % |
| Total | $ 66,410 | 100.0 % | $ 66,882 | 100.0 % |

The composition of the Company's total investments by industry as of December 31, 2014 and December 31, 2013, at cost and fair value was as follows (since the Other Portfolio investment does not represent a single industry, this information excludes Other Portfolio investments):

| | Cost | | Fair Value | |
|---|---|---|---|---|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| Media | 9.4 % | 6.7 % | 9.2 % | 6.7 % |
| Hotels, Restaurants, and Leisure | 7.5 % | 5.4 % | 7.6 % | 5.4 % |
| IT Services | 7.1 % | 11.2 % | 7.1 % | 11.3 % |
| Food Products | 5.1 % | 1.5 % | 5.1 % | 1.4 % |
| Oil, Gas, and Consumable Fuels | 5.6 % | 4.7 % | 4.7 % | 4.7 % |
| Diversified Consumer Services | 4.5 % | 4.1 % | 4.6 % | 4.1 % |
| Auto Components | 3.8 % | 2.2 % | 3.9 % | 2.2 % |
| Health Care Providers and Services | 3.7 % | 5.6 % | 3.8 % | 5.6 % |
| Software | 3.7 % | 3.7 % | 3.8 % | 3.7 % |
| Construction and Engineering | 3.5 % | — % | 3.7 % | — % |
| Chemicals | 3.0 % | 1.9 % | 3.1 % | 1.9 % |
| Machinery | 3.0 % | — % | 3.1 % | — % |
| Internet Software and Services | 2.9 % | 5.9 % | 3.0 % | 5.9 % |
| Electronic Equipment, Instruments & Components | 2.6 % | 3.0 % | 2.7 % | 3.0 % |
| Energy Equipment and Services | 3.3 % | 3.7 % | 2.7 % | 3.8 % |
| Specialty Retail | 2.5 % | 6.6 % | 2.4 % | 6.6 % |
| Commercial Services and Supplies | 2.3 % | 2.9 % | 2.3 % | 2.9 % |
| Textiles, Apparel, & Luxury Goods | 2.1 % | 4.0 % | 2.2 % | 4.0 % |
| Pharmaceuticals | 2.1 % | — % | 2.2 % | — % |
| Tobacco | 1.7 % | — % | 1.8 % | — % |
| Marine | 1.6 % | — % | 1.7 % | — % |
| Leisure Equipment and Products | 1.6 % | 2.2 % | 1.6 % | 2.2 % |
| Metals and Mining | 1.6 % | 1.4 % | 1.6 % | 1.3 % |
| Distributors | 1.6 % | — % | 1.6 % | — % |
| Household Products | 1.6 % | — % | 1.6 % | — % |
| Internet and Catalog Retail | 1.5 % | 2.2 % | 1.5 % | 2.2 % |
| Aerospace and Defense | 1.4 % | 1.7 % | 1.4 % | 1.7 % |
| Health Care Equipment and Supplies | 1.4 % | 1.5 % | 1.4 % | 1.5 % |
| Diversified Telecommunication Services | 1.4 % | — % | 1.4 % | — % |
| Insurance | 1.3 % | — % | 1.4 % | — % |
| Automobiles | 1.2 % | — % | 1.3 % | — % |
| Professional Services | 1.2 % | 2.8 % | 1.2 % | 2.7 % |
| Healthcare Technology | 1.0 % | — % | 1.0 % | — % |
| Air Freight & Logistics | 0.6 % | — % | 0.7 % | — % |
| Containers and Packaging | 0.5 % | — % | 0.5 % | — % |
| Consumer Finance | 0.5 % | — % | 0.5 % | — % |
| Life Sciences Tools and Services | 0.3 % | 2.2 % | 0.3 % | 2.2 % |
| Electric Utilities | 0.3 % | 1.3 % | 0.3 % | 1.3 % |
| Advertising | — % | 1.0 % | — % | 1.1 % |
| Communications Equipment | — % | 1.3 % | — % | 1.3 % |
| Electrical Equipment | — % | 2.2 % | — % | 2.2 % |
| Food & Staples Retailing | — % | 1.5 % | — % | 1.5 % |
| Restaurants | — % | 2.3 % | — % | 2.3 % |
| Thrifts & Mortgage Finance | — % | 1.1 % | — % | 1.1 % |
| Data Processing and Outsourced Services | — % | 2.2 % | — % | 2.2 % |
| **Total** | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

**Note 4 — Borrowings**

On May 24, 2012, HMS Income LLC entered into a $15 million senior secured revolving credit facility (the "Credit Facility") with Capital One, National Association ("Capital One"). The Credit Facility had an accordion provision allowing increases in borrowing of up to $60 million, for a total facility of up to $75 million, subject to certain conditions. On August 16, 2013, the Company expanded the available capacity under the Credit Facility from $15 million to $25 million. The Credit Facility was further amended on November 25, 2013, increasing the capacity of the Credit Facility from $25 million to $30 million.

On March 11, 2014, the Company entered into a $70 million senior secured revolving credit facility (the "Syndicated Credit Facility") with Capital One, as the administrative agent, and with Capital One and the other banks, (the "Lenders"). This Syndicated Credit Facility amends and restates the Credit Facility in its entirety. Borrowings under the Syndicated Credit Facility bear interest, subject to the Company's election, on a per annum basis equal to (i) the adjusted LIBOR rate plus 2.75% or (ii) the base rate plus 1.75%. The base rate is defined as the higher of (a) the prime rate or (b) the Federal Funds Rate (as defined in the credit agreement) plus 0.5%. The adjusted LIBOR rate is defined in the credit agreement for the Syndicated Credit Facility as the LIBOR rate plus such amount as adjusted for statutory reserve requirements for Eurocurrency liabilities. The Company pays unused commitment fees of 0.25% per annum on the unused lender commitment under the Syndicated Credit Facility if more than 50% of the Syndicated Credit Facility is being used and a commitment fee of 0.375% per annum on the unused lender commitments under the Syndicated Credit Facility if less than 50% of the Syndicated Credit Facility is being used. On May 30, 2014, the Company and the Lenders entered into the First Amendment (the "First Amendment") to the Syndicated Credit Facility. The First Amendment provides for, among other things, the creation of certain structured subsidiaries of the Company (the "Structured Subsidiaries"), which are not guarantors under the Syndicated Credit Facility and which are permitted to incur debt outside of the Syndicated Credit Facility, subject to certain conditions. The assets of the Structured Subsidiaries are not considered collateral under the Syndicated Credit Facility. The First Amendment contains additional covenants such as the Company maintaining a minimum consolidated tangible net worth, excluding Structured Subsidiaries, limitations regarding industry concentration and an anti-hoarding provision to protect the collateral under the Syndicated Credit Facility. On September 22, 2014, the Company entered into a Second Amendment ("Second Amendment") to the Syndicated Credit Facility. The Second Amendment increases the revolver commitments by the amount of $35 million, from $70 million to $105 million. The Syndicated Credit Facility has an accordion provision allowing borrowing capacity to increase up to $150 million.

Borrowings under the Syndicated Credit Facility are secured by all of the Company's assets, except the assets of Structured Subsidiaries, as well as all of the assets, and a pledge of equity ownership interests, of any future subsidiaries of the Company, which would be joined as guarantors. The credit agreement for the Syndicated Credit Facility contains affirmative and negative covenants usual and customary for credit facilities of this nature, including, but not limited to maintaining a certain interest coverage ratio and an asset coverage ratio, maintaining a minimum consolidated tangible net worth, excluding the Structured Subsidiaries, limitations regarding industry concentration, and an anti-hoarding provision to protect the collateral under the Syndicated Credit Facility. Further, the credit agreement contains usual and customary default provisions including, without limitation: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy of the Company; (iii) a material adverse change in the Company's business; or (iv) breach of any covenant, representation or warranty in the loan agreement or other credit documents and failure to cure such breach within defined periods. Additionally, the Syndicated Credit Facility requires the Company to obtain written approval from the administrative agent prior to entering into any material amendment, waiver or other modification of any provision of the Advisory Agreement. As of December 31, 2014, the Company was not aware of any instances of noncompliance with covenants related to the Syndicated Credit Facility. The maturity date of the Syndicated Credit Facility is March 11, 2017, and the Company has two, one-year extension options subject to Lender approval.

On June 2, 2014, the Company's wholly-owned Structured Subsidiary, HMS Funding I LLC, a Delaware limited liability company ("HMS Funding"), entered into a credit agreement (the "HMS Funding Facility") among HMS Funding, as borrower, the Company, as equityholder and as servicer, Deutsche Bank AG, New York Branch ("Deutsche Bank"), as administrative agent, the financial institutions party thereto as lenders (together with Deutsche Bank, the "HMS Funding Lenders"), and U.S. Bank National Association (the "Collateral Agent"), as collateral agent and collateral custodian. The HMS Funding Facility provided for an initial borrowing capacity of $50 million, subject to certain limitations, including limitations with respect to HMS Funding's investments, as more fully described in the HMS Funding Facility. On July 22, 2014, HMS Funding, the Company, Deutsche Bank and the Collateral Agent entered into Amendment No. 1 to the HMS Funding Facility, pursuant to which the borrowing capacity under the HMS Funding Facility was increased to $100 million. On December 3, 2014, HMS Funding, the Company, Deutsche Bank and the Collateral Agent entered into Amendment No. 2 to the HMS Funding Facility, increasing the capacity under the HMS Funding Facility to $125 million. On February 5, 2015, HMS Funding, the Company, Deutsche Bank and the Collateral Agent entered into Amendment No. 3 to the HMS Funding Facility, pursuant to which the borrowing capacity under the HMS Funding Facility was increased to $200 million. At HMS Funding's request and upon approval by HMS Funding Lenders, the maximum borrowings under the HMS Funding Facility can be increased by up to an additional $50 million, in the aggregate, subject to certain limitations contained in the HMS Funding Facility, for a total maximum capacity of $250 million. The Company contributes certain assets to HMS Funding from time to time, as permitted under the Syndicated Credit Facility, as collateral to secure the HMS Funding Facility. The HMS Funding Facility matures on June 3, 2019.

Under the HMS Funding Facility, interest is calculated as the sum of the one-month LIBOR plus the applicable margin of 2.75%. The HMS Funding Facility provides for a revolving period until December 3, 2016, unless otherwise extended with the consent of the HMS Funding Lenders. The amortization period begins the day after the last day of the revolving period and ends on the maturity date. During the amortization period, HMS Funding cannot borrow any remaining unfunded commitment, the applicable margin will increase by 0.25%, and a portion of interest income and all principal collections are applied to the outstanding loan balance. Any outstanding loan balance is due on the maturity date. Additionally, HMS Funding will pay a utilization fee equal to 2.75% of the undrawn amount of the required utilization, which for the first 90 days of the facility was 25% of the loan commitment amount and 75% thereafter until the end of the revolving period. HMS Funding also pays an undrawn fee on the undrawn amount of commitments of 0.65% per annum, depending on the utilization of the loan commitment amount. A loan commitment amount subject to the utilization fee will not be subject to the undrawn fee.

HMS Funding's obligations under the HMS Funding Facility are secured by a first priority security interest in its assets, including all of the present and future property and assets of HMS Funding. The HMS Funding Facility contains affirmative and negative covenants usual and customary for credit facilities of this nature, including, but not limited to maintaining a positive tangible net worth, limitations on industry concentration and complying with all applicable laws. The HMS Funding Facility contains usual and customary default provisions including, without limitation: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy of the Company; (iii) the occurrence of a change of control; or (iv) any uncured breach of a covenant, representation or warranty in the HMS Funding Facility. As of December 31, 2014, the Company was not aware of any instances of noncompliance with covenants related to the HMS Funding Facility.

As of December 31, 2014, the Company had borrowings of $87.9 million outstanding on the Syndicated Credit Facility, and had borrowings of $95.0 million outstanding on the HMS Funding Facility, both of which the Company estimated approximated fair value.

**Note 5 – Financial Highlights**

The following is a schedule of financial highlights of the Company for theyears ended December 31, 2014, 2013, 2012 and the period from inception (November 22, 2011) through December 31, 2011.

| Per Share/Unit Data: | Year Ended December 31, 2014 | Year Ended December 31, 2013 | Year Ended December 31, 2012 | For the Period from Inception (November 22, 2011) through December 31, 2011 |
|---|---|---|---|---|
| **Net asset value at beginning of period** | $ 8.91 | $ 8.86 | $ 9.02 | $ — |
| Net realized income (1) (2) | 0.70 | 0.65 | 1.00 | 0.05 |
| Net unrealized appreciation (depreciation) (1) (2) | (0.89) | 0.16 | 0.08 | (0.03) |
| Net increase (decrease) in net assets resulting from operations | (0.19) | 0.81 | 1.08 | 0.02 |
| Stockholder distributions (1) (3) | (0.70) | (0.70) | (0.94) | — |
| Issuance of membership units | — | — | — | 9.00 |
| Issuance of common stock above (below) net asset value (4), net of offering costs (1) | 0.09 | (0.06) | — | — |
| Impact of stock dividend | — | — | (0.20) | — |
| Impact of merger transaction | — | — | (0.10) | — |
| Other (5) | 0.29 | — | — | — |
| **Net asset value at end of the period** | $ 8.40 | $ 8.91 | $ 8.86 | $ 9.02 |
| Shares/units outstanding at end of period | 30,967,120 | 5,396,967 | 1,289,472 | 1,111,111 |
| Weighted average shares/units outstanding | 16,022,853 | 2,648,689 | 1,151,554 | 1,111,111 |

(1)Based on weighted average number of shares of common stock outstanding for the period.

(2)Change in net realized income and net unrealized appreciation (depreciation) from investments can change significantly from period to period.

(3)The stockholder distributions represent the stockholder distributions declared for the period.

(4)The continuous issuance of shares of common stock may cause an incremental increase in net asset value per share due to the sale of shares at the then prevailing public offering price in excess of net asset value per share on each subscription closing date. The per share data was derived by computing (i) the sum of (A) the number of shares issued in connection with subscriptions and/or distribution reinvestment on each share transaction date times (B) the differences between the net proceeds per share and the net asset value per share on each share transaction date, divided by (ii) the weighted average shares of common stock outstanding for the period.

(5)Includes the impact of the different share amounts as a result of calculating certain per share data based on the weighted average basic shares outstanding during the period and certain per share data based on the shares outstanding as of a period end or transaction date.

| | Year Ended December 31, 2014 | Year Ended December 31, 2013 | Year Ended December 31, 2012 | For the Period from Inception (November 22, 2011) through December 31, 2011 |
|---|---|---|---|---|
| | (in thousands, except percentages) | | | |
| Net asset value at end of period | $ 260,063 | $ 48,077 | $ 11,423 | $ 10,020 |
| Average net assets | $ 142,603 | $ 24,864 | $ 10,488 | $ 10,020 |
| Average Credit Facility borrowings | $ 89,846 | $ 9,660 | $ 7,231 | $ 7,500 |
| | | | | |
| Ratios to average net assets: | | | | |
| Ratio of total expenses to average net assets(1) | 5.62 % | 4.23 % | 7.05 % | 0.34 % |
| Ratio of total expenses, excluding interest expense, to average net assets (1) | 3.29 % | 2.55 % | 4.03 % | 0.18 % |
| Ratio of net investment income to average net assets | 7.85 % | 6.86 % | 10.81 % | 0.55 % |
| | | | | |
| Portfolio turnover ratio | 38.39 % | 49.37 % | 72.81 % | — % |
| | | | | |
| Total return (2) | 2.13 % | 8.47 % | 10.85 % | 0.22 % |

(1)For the year ended December 31, 2014, the Adviser waived base management fees of approximately $1.8 million, subordinated incentive fees of approximately $451,000, capital gains incentive fees of approximately $0, administrative services expenses of approximately $1.5 million and made an expense support payment to the Company of $328,000. For the year ended December 31, 2013, the Advisers waived base management fees of approximately $779,000, capital gains incentive fees of approximately $5,000, administrative services expenses of approximately $1.0 million, and made an expense support payment to the Company of $153,000. The ratio is calculated by reducing the expenses to reflect the waiver of expenses and reimbursement of administrative services and to reflect the reduction of expenses for expense support provided by the Adviser in both periods presented. See Note 9-*Related Party Transactions and Arrangements* for further discussion of fee waivers and expense support provided by the Advisers.

(2)Total return is calculated on the change in net asset value per share and stockholder distributions declared per share over the reporting period.

**Note 6 – Stockholder Distributions**

The following table reflects the cash distributions per share that the Company has declared on its common stock during the year ended December 31, 2014 (in thousands except per share amounts).

| | Distributions | |
|---|---|---|
| **For the Period Ended** | **Per Share** | **Amount** |
| Three months ended December 31, 2014 | $ 0.18 | $ 4,658 |
| Three months ended September 30, 2014 | $ 0.17 | $ 3,234 |
| Three months ended June 30, 2014 | $ 0.18 | $ 2,049 |
| Three months ended March 31, 2014 | $ 0.17 | $ 1,276 |

The following table reflects the cash distributions per share that the Company has declared on its common stock during the year ended December 31, 2013 (in thousands except per share amounts).

| | Distributions | |
|---|---|---|
| **For the Period Ended** | **Per Share** | **Amount** |
| Three months ended December 31, 2013 | $ 0.18 | $ 743 |
| Three months ended September 30, 2013 | $ 0.17 | $ 513 |
| Three months ended June 30, 2013 | $ 0.18 | $ 356 |
| Three months ended March 31, 2013 | $ 0.17 | $ 243 |

The following table reflects the cash distributions per share that the Company has declared on its common stock during the year ended December 31, 2012 (in thousands except per share amounts).

| | Distributions | |
|---|---|---|
| **For the Period Ended** | **Per Share** | **Amount** |
| Three months ended December 31, 2012 | $ 0.17 | $ 217 |
| Three months ended September 30, 2012 | $ 0.18 | $ 199 |
| One month ended June 30, 2012 | $ 0.06 | $ 65 |
| Five months ended May 31, 2012 | $ 0.53 | $ 600 |

There were no distributions for the period from inception (November 22, 2011) to December 31, 2011.

On December 18, 2014, with the authorization of the Company's board of directors, the Company declared distributions to its stockholders for the period of January 2015 through March 2015. These distributions have been, or will be, calculated based on stockholders of record each day from January 1, 2015 through March 31, 2015 in an amount equal to $0.00191781 per share, per day (which represents an annualized distribution yield of 7.00% based on the Company's initial public offering price of $10.00 per share and a yield of 7.18% based on the Company's current offering price of $9.75 per share, if it were maintained every day for a twelve-month period). Distributions are paid on the first business day following the completion of each month to which they relate.

The following table reflects the stock dividend per share that the Company has declared and issued on its common stock:

| **Date Declared** | **Record Date** | **Dividend Date** | **Dividend Percentage** | **Shares Issued** |
|---|---|---|---|---|
| September 13, 2012 | September 13, 2012 | September 14, 2012 | 2.25% | 25,274 |

The purpose of this stock dividend was for the Company to maintain a net asset value per share that was below the then-current offering price, after deducting selling commissions and dealer manager fees, as required by the 1940 Act, subject to certain limited exceptions. The Company's board of directors determined that the Company's portfolio performance sufficiently warranted taking these actions.

The stock dividend increased the number of shares outstanding, thereby reducing the Company's net asset value per share. However, because the stock dividend was payable to all stockholders as of the designated record date in proportion to their holdings as of such date, the reduction in net asset value per share as a result of the stock dividend was offset exactly by the increase in the number of shares owned by each stockholder. Also, the stock dividend did not change any stockholder's proportionate interest in the Company, and, therefore, it did not represent a taxable dividend. Lastly, as the overall value to the stockholder was not reduced as a result of the stock dividend, the Company's board of directors determined that the stock dividend would not be dilutive to stockholders as of the designated record date.

The Company has adopted an "opt in" distribution reinvestment plan for its stockholders. As a result, if the Company makes a distribution, its stockholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of the Company's common stock.

The following table reflects the sources of the cash distributions that the Company declared and, in some instances, paid on its common stock during the years ended December 31, 2014, 2013 and 2012.

| | Year Ended December 31, 2014 | | Year Ended December 31, 2013 | | Year Ended December 31, 2012 | |
|---|---|---|---|---|---|---|
| **Source of Distribution** | **Distribution Amount** | **Percentage** | **Distribution Amount** | **Percentage** | **Distribution Amount** | **Percentage** |
| Net realized income from operations (net of waiver of base management and incentive fees and expense support payment from Adviser) | $ 8,615 | 77% | $ 795 | 43% | $ 790 | 73% |
| Waiver of base management and incentive fees | 2,274 | 20% | 784 | 42% | 291 | 27% |
| Expense support payment from Adviser | 328 | 3% | 153 | 8% | — | —% |
| Prior period net investment income in excess of prior period distributions declared | — | —% | 123 | 7% | — | —% |
| Total | $ 11,217 | 100% | $ 1,855 | 100% | $ 1,081 | 100% |

The Company may fund its cash distributions from all sources of funds legally available, including Offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to it on account of preferred and common equity investments in portfolio companies, fee and expense waivers from its Advisers, and expense support payments from the Adviser. The Company has not established limits on the amount of funds that the Company may use from legally available sources to make distributions. The Company expects that for the foreseeable future, a portion of the distributions will be paid from sources other than net realized income from operations, which may include Offering proceeds, borrowings, fee and expense waivers from its Advisers and support payments from the Adviser. As further discussed in Note 9 - *Related Party Transactions and Arrangements*, the Adviser provided Expense Support through December 31, 2014, in order for the Company to achieve a reasonable level of expenses relative to its investment income. On September 30, 2014, the 2014 Expense Reimbursement Agreement with the Adviser was amended removing the mandatory reimbursement payment requirement, and therefore, finalizing the expense support from the Adviser. Upon finalization of the expense support, the Company recognized the expense support of $328,000 from the Adviser. This Expense Support Payment was received by the Company on October 30, 2014. No additional Expense Support Payments were made by the Adviser in 2014. There is currently no agreement in place for the Adviser to provide Expense Support to the Company after December 31, 2014.

As a result of fee waivers under the conditional fee waiver agreement that the Company entered into with the Advisers on May 31, 2012 (we refer to this agreement, as amended from time to time, and most recently on December 30, 2013, as the "Conditional Fee Waiver Agreement"), fee waivers may be subject to repayment by the Company at the sole and absolute discretion of the Company's board of directors within three years from the date that each respective fee waiver was made. The Conditional Fee Waiver Agreement allows the Advisers to waive fees upon the occurrence of any event, in the Advisers' sole discretion, including, but neither limited to nor automatically triggered by, the Company's estimate that a distribution declared and payable to its stockholders during the fee waiver period represents, or would represent when paid, a return of capital for U.S. federal income tax purposes.

The Company's distributions may exceed its earnings, especially during the period before it has substantially invested the proceeds from the Offering. As a result, a portion of the distributions it makes may represent a return of capital for U.S. federal income tax purposes. The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of the Company's board of directors.

**Note 7 – Taxable Income**

The Company has elected to be treated for U.S. federal income tax purposes as a RIC. As a RIC, the Company generally will not pay corporate-level U.S. federal income taxes on net ordinary income or capital gains that the Company distributes to its stockholders from taxable earnings and profits as distributions. The Company must generally distribute at least 90% of its investment company taxable income to maintain its RIC status. As a part of maintaining its RIC status, undistributed taxable income (subject to a 4% excise tax) pertaining to a given taxable year may be distributed up to 12 months subsequent to the end of that taxable year, provided such distributions are declared prior to the filing of the federal income tax return for the prior year. In 2014, the Company paid approximately $1,000 with its 2013 tax year extension which was an estimate of the 4% nondeductible excise tax due; however, upon finalization of the 2013 federal tax return, none of the cumulative undistributed taxable income was subject to this 4% nondeductible excise tax since the Company distributed enough to eliminate an excise tax liability. In order to avoid this excise tax, the Company needs to distribute, during each calendar year an amount at least equal to the sum of (1) 98.0% of its net ordinary income for the calendar year, (2) 98.2% of its capital gain in excess of capital loss for the calendar year and (3) any net ordinary income and net capital gain for the preceding year that was not distributed during such year and on which the Company paid no U.S. federal income tax. None of the cumulative undistributed taxable income was subject to this 4% nondeductible excise tax, therefore the $1,000 payment made with the extension will be returned to the Company.

The Company has formed a wholly owned subsidiary, HMS Equity Holding, LLC, which was elected to be a taxable entity (the "Taxable Subsidiary"). The Taxable Subsidiary holds equity investments in portfolio companies which are “pass through” entities for tax purposes. The Taxable Subsidiary is consolidated for U.S. GAAP reporting purposes, and the portfolio investments held by it are included in the consolidated financial statements as portfolio investments recorded at fair value. The Taxable Subsidiary permits the Company to comply with the RIC income requirements contained in the RIC tax provisions of the Code. The Taxable Subsidiary is not consolidated with the Company for income tax purposes and may generate income tax expense, or benefit, and the related tax assets and liabilities, as a result of its ownership of certain portfolio investments. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in the Company’s consolidated financial statements.

Ordinary distributions from a RIC do not qualify for the 20% maximum tax rate plus a 3.8% Medicare surtax, if applicable, on dividend income from domestic corporations and qualified foreign corporations, except to the extent that the RIC received the income in the form of qualifying dividends from domestic corporations and qualified foreign corporations. The tax attributes for distributions will generally include both ordinary income and capital gains but may also include qualified dividends or return of capital.

The determination of the tax attributes of the Company’s distributions is made annually at the end of the Company’s taxable year based upon the Company’s taxable income for the full year and distributions paid for the full year. The actual tax characteristics of distributions to stockholders will be reported to stockholders annually on a Form 1099-DIV.

**Note 8 – Supplemental Cash Flow Disclosures**

Listed below are the supplemental cash flow disclosures for the years ended December 31, 2014, 2013 and 2012 (in thousands):

| **Supplemental Disclosure of Cash Flow Information** | | **Year Ended December 31, 2014** | | **Year Ended December 31, 2013** | | **Year Ended December 31, 2012** |
|---|---|---|---|---|---|---|
| Interest Paid | $ | 2,795 | $ | 302 | $ | 194 |
| Taxes Paid | $ | 1 | $ | 6 | $ | — |
| | | | | | | |
| **Supplemental Disclosure of Non-Cash Flow Information** | | | | | | |
| Stockholder distributions declared and unpaid | $ | 1,760 | $ | 295 | $ | 65 |
| Stockholder distributions reinvested | $ | 4,630 | $ | 429 | $ | 6 |
| Change in unpaid deferred offering costs | $ | 1,302 | $ | 1,161 | $ | 2,121 |
| Unpaid deferred financing costs | $ | 10 | $ | — | $ | — |
| Sale of portfolio investments to Main Street Capital Corporation | $ | — | $ | — | $ | 2,250 |
| Portfolio investments acquired from Main Street Capital Corporation | $ | — | $ | — | $ | 2,250 |

**Note 9 — Related Party Transactions and Arrangements**

*Advisory Agreements and Conditional Fee Waiver*

As described in Note 1 - *Principal Business and Organization*, the business of the Company is managed by the Adviser (an affiliate of Hines), pursuant to the Advisory Agreement that was entered into on May 31, 2012 and renewed in May 2014. This agreement states that the Adviser will oversee the management of the Company's activities and is responsible for making investment decisions with respect to, and providing day-to-day management and administration of, the Company's investment portfolio. Additionally, the Adviser has engaged the Sub-Adviser pursuant to the Sub-Advisory Agreement to identify, evaluate, negotiate and structure the Company's prospective investments, make investment and portfolio management recommendations for approval by the Adviser, monitor the Company's investment portfolio and provide certain ongoing administrative services to the Adviser in exchange for which the Adviser will pay the Sub-Adviser fifty percent (50%) of the base management fee and incentive fees described below as compensation for its services. In addition, as of December 31, 2014 and December 31, 2013, the Company owned zero and three, respectively, investments with respect to which the Sub-Adviser provides servicing.

Pursuant to the Advisory Agreement, the Company pays the Adviser a base management fee and incentive fees as compensation for the services described above. The base management fee is calculated at an annual rate of 2% of the Company's average gross assets. The base management fee is payable quarterly in arrears, and is calculated based on the average value of the Company's gross assets at the end of the two most recently completed calendar quarters. The base management fee is expensed as incurred.

The incentive fees consist of two parts. The first part, referred to as the subordinated incentive fee on income, is calculated and payable quarterly in arrears based on pre-incentive fee net investment income for the immediately preceding quarter. The subordinated incentive fee on income is equal to 20% of the Company's pre-incentive fee net investment income for the immediately preceding quarter, expressed as a quarterly rate of return on adjusted capital at the beginning of the most recently completed calendar quarter, exceeding 1.875% (7.5% annualized), subject to a "catch up" feature. For purposes of this fee, adjusted capital means cumulative gross proceeds generated from sales of the Company's common stock (including proceeds from the Company's distribution reinvestment plan) reduced for non-liquidating distributions, other than distributions of profits, paid to the Company's stockholders and amounts paid for share repurchases pursuant to the Company's share repurchase program. The subordinated incentive fee on income is expensed in the quarter in which it is incurred.

The second part of the incentive fee, referred to as the incentive fee on capital gains, is an incentive fee on capital gains earned from the portfolio of the Company and is determined and payable in arrears as of the end of each calendar year (or upon termination of the Advisory Agreement). This fee equals 20.0% of the Company's incentive fee capital gains, which equals the Company's realized capital gains on a cumulative basis from inception, calculated as of the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. At the end of each reporting period, the Company estimates the incentive fee on capital gains and accrues the fee based on a hypothetical liquidation of its portfolio. Therefore the accrual includes both net realized gains and net unrealized gains (the net unrealized difference between the fair value and the par value of its portfolio), if any. The incentive fee accrued pertaining to the unrealized gain is neither earned nor payable to the Advisers until such time it is realized.

As discussed above, the Company and the Advisers entered into the Conditional Fee Waiver Agreement pursuant to which, for the period from June 4, 2012 to December 31, 2013, the Advisers agreed to waive all fees upon the occurrence of any event, which in the Advisers' sole discretion is deemed necessary, including, but neither limited to nor automatically triggered by, the Company's estimate that a distribution declared and payable to its stockholders during the fee waiver period represents, or would represent when paid, a return of capital for U.S. federal income tax purposes. Further, the agreement contains a clause which states that subject to the approval of the Company's board of directors, in future periods previously waived fees may be paid to the Advisers, if and only to the extent that the Company's cumulative net increase in net assets resulting from operations exceeds the amount of cumulative distributions paid to stockholders. The previously waived fees are potentially subject to repayment by the Company, if at all, within a period not to exceed three years from the date of each respective fee waiver. On December 30, 2013, the Adviser entered into an amendment to the Conditional Fee Waiver Agreement extending the waiver of HMS Adviser's fees through December 31, 2014. The waiver of fees due to the Sub-Adviser ended on December 31, 2013, and beginning January 1, 2014, the Sub-Adviser no longer waived its fees under the Sub-Advisory Agreement, except the subordinated incentive fee on income for the period October 1, 2014 through December 31, 2014, totaling approximately $226,000, which the Sub-Adviser agreed to waive.

For the years ended December 31, 2014, 2013, and 2012, the Company incurred base management fees of approximately $5.6 million, $779,000 and $232,000, respectively, capital gains incentive fees of approximately $0, $5,000 and $3,000, respectively, and subordinated incentive fees on income of $451,000, $0 and $123,000, respectively. For the years ended December 31, 2014, 2013, and 2012, the Advisers waived base management fees of $1.8 million, $779,000 and $232,000, respectively, and capital gains incentive fees of $0, $5,000 and $3,000, respectively, and subordinated incentive fees on income of $451,000, $0 and

$123,000, respectively. For the years ended December 31, 2014, 2013 and 2012, the Company did not record an accrual for any previously waived fees. Any future reimbursement of previously waived fees to the Advisers will not be accrued until the reimbursement of the waived fees become probable and estimable which will be upon approval of the Company's board of directors. Additionally, the reimbursement of the fees waived under the Conditional Fee Waiver Agreement are subordinate to the reimbursement of the expense support payments, which are described below.

Pursuant to the Advisory Agreement and Sub-Advisory Agreement, the Company is required to pay or reimburse the Advisers for administrative services expenses, which include all costs and expenses related to the day-to-day administration and management of the Company not related to advisory services. For the years ended December 31, 2014, 2013, and 2012, the Company incurred, and the Advisers waived the reimbursement of, administrative services expenses of approximately $1.5 million, $1.0 million and $438,000, respectively. The Advisers have agreed to waive the reimbursement of administrative services expenses through December 31, 2014. The waiver of the reimbursement of administrative services expenses is not subject to future reimbursement.

On November 11, 2013, the Company entered into an Expense Support and Conditional Reimbursement Agreement (the "2013 Expense Reimbursement Agreement") with the Adviser. Under the 2013 Expense Reimbursement Agreement, until December 31, 2013 or a prior date mutually agreed to by both parties, the Adviser agreed to pay to the Company up to 100% of the Company's operating expenses (the "Expense Support Payment"). Operating expenses are defined as 2013 third party operating costs and expenses incurred by the Company under generally accepted accounting principles for investment management companies. Any Expense Support Payments paid by the Adviser are subject to conditional reimbursement by the Company upon a determination by the board of directors of the Company that the Company has achieved a reasonable level of expenses relative to its investment income. Any repayment of Expense Support Payments will be made within a period not to exceed three years from the date each respective Expense Support Payment is determined. Pursuant to the terms of the 2013 Expense Reimbursement Agreement, for the year ended December 31, 2013, the Adviser made an Expense Support Payment to the Company of $153,000.

On December 30, 2013, the Company and the Adviser agreed to an Expense Support and Conditional Reimbursement Agreement, which was subsequently amended on March 31, 2014, June 30, 2014 and September 30, 2014 (as amended, the "2014 Expense Reimbursement Agreement"). Under the 2014 Expense Reimbursement Agreement, until December 31, 2014 or a prior date mutually agreed to by both parties, the Adviser, at its sole discretion, will pay to the Company up to 100% of the Company's operating expenses, (an "Expense Support Payment"), in order for the Company to achieve a reasonable level of expenses relative to its investment income (the "Operating Expense Objective"). Under the 2014 Expense Reimbursement Agreement, operating expenses are defined as third party operating costs and expenses incurred by the Company between January 1, 2014, and December 31, 2014, under generally accepted accounting principles for investment management companies. The Board, in its discretion, may approve the repayment of unreimbursed Expense Support Payments (a "Reimbursement Payment") upon a determination by the Board that the Company has achieved the Operating Expense Objective in any quarter following receipt by the Company of an Expense Support Payment. Under the 2014 Expense Reimbursement Agreement, any unreimbursed Expense Support Payment may be reimbursed by the Company within a period not to exceed three years from the date each respective Expense Support Payment was determined, but only after any Expense Support Payment amounts have been reimbursed under the 2013 Expense Reimbursement Agreement. Any Expense Support Payments that remain unreimbursed three years after such payment will be permanently waived. The 2014 Expense Reimbursement Agreement may be terminated by the Company at any time, and shall automatically terminate upon termination of the Advisory Agreement or upon liquidation or dissolution of the Company. During the year ended December 31, 2014, the Company has recognized an Expense Support Payment of $328,000, which the Adviser paid to the Company on October 30, 2014. The Expense Support Payment from the Adviser of $328,000 may be reimbursed by the Company within a period not to exceed three years, subject to approval by the Company's Board. As discussed above, the reimbursement of this Expense Support Payment from the Company to the Adviser is only permitted after the reimbursement of the Expense Support Payment of $153,000 that was made in 2013.

The table below presents the fees and expenses waived by the Advisers and the timing of potential reimbursement of waived fees. Previously waived fees will only be reimbursed with the approval of the Company's board of directors and if the "operating expense ratio" (as described in footnote 4 to the table below) is equal to or less than the Company's operating expense ratio at the time the corresponding fees were waived and if the annualized rate of the Company's regular cash distributions to stockholders is equal to or greater than the annualized rate of the Company's regular cash distributions at the time the corresponding fees were waived.

| Period Ended | Amount of Fee Waivers and Expense Support Payments (in thousands)(1) | Expiration of the Advisers' Right to Receive Reimbursement of Previously Waived Fees and Expense Support Payments(2) | Amount of Administrative Expense Waivers (in thousands)(3) | Operating Expense Ratio as of the Date of the Fee Waivers(4) | Annualized Distribution Rate as of the Date of the Fee Waivers(5) |
|---|---|---|---|---|---|
| June 30, 2012 | $49 | June 30, 2015 | $25 | 1.35% | 7.00% |
| September 30, 2012 | $152 | September 30, 2015 | $129 | 1.97% | 7.00% |
| December 31, 2012 | $157 | December 31, 2015 | $284 | 2.96% | 7.00% |
| March 31, 2013 | $84 | March 31, 2016 | $233 | 1.86% | 7.00% |
| June 30, 2013 | $118 | June 30, 2016 | $222 | 1.36% | 7.00% |
| September 30, 2013 | $268 | September 30, 2016 | $234 | 1.22% | 7.00% |
| December 31, 2013 | $467 | December 31, 2016 | $329 | 0.49% | 7.00% |
| March 31, 2014 | $303 | March 31, 2017 | $329 | 1.28% | 7.00% |
| June 30, 2014 | $551 | June 30, 2017 | $385 | 1.28% | 7.00% |
| September 30, 2014 | $1,149 | September 30, 2017 | $371 | 1.23% | 7.00% |
| December 31, 2014 | $599 | December 31, 2017 | $412 | 1.70% | 7.00% |

(1)Fees waived pursuant to the Conditional Fee Waiver Agreement and Expense Support Payments pursuant to the 2013 and 2014 Expense Reimbursement Agreements.

(2)Subject to the approval of the Company's board of directors, in future periods, previously waived fees may be paid to the Advisers, if the Company's cumulative net increase in net assets resulting from operations exceeds the amount of cumulative distributions paid to stockholders. The previously waived fees are potentially subject to repayment by the Company, if at all, within a period not to exceed three years from the date of each respective fee waiver. Additionally, the reimbursement of the fees waived under the Conditional Fee Waiver Agreement are subordinate to the reimbursement of the Expense Support Payments made pursuant to the 2013 and 2014 Expense Reimbursement Agreements. To date, none of the previously waived fees and Expense Support Payments have been approved for reimbursement by the Company's board of directors.

(3)The Advisers have agreed to permanently waive reimbursement by the Company of administrative expenses through December 31, 2014. The administrative expenses are waived on a quarterly basis and are not eligible for future reimbursement from the Company to the Advisers.

(4)The "Operating Expense Ratio" is calculated on a quarterly basis as a percentage of average net assets and includes all expenses borne by the Company, except for base management and incentive fees and administrative expenses waived by the Advisers and organizational and offering expenses. For the quarter ended December 31, 2013, expenses have been reduced by $153,000, the amount of the Expense Support Payment received in 2013 from the Adviser. For the quarter ended September 30, 2014, expenses have been reduced by $328,000, which Expense Support Payment was received from the Adviser on October 30, 2014.

(5)"Annualized Distribution Rate" equals $0.00191781 per share, per day (which represents an annualized distribution yield of 7.00% based on the initial public offering price of $10.00 per share and a yield of 7.18% based on the Company's current offering price, effective January 15, 2015, of $9.75 per share if it were maintained every day for a twelve-month period). "Annualized Distribution Rate" does not include the special stock dividend paid to stockholders on September 14, 2012.

As discussed in Note 2 - *Basis of Presentation and Summary of Significant Accounting Policies* - Organizational and Offering Costs, as of December 31, 2014 and December 31, 2013, the Adviser and Sub-Adviser have incurred approximately $6.8 million and $4.3 million, respectively, of Offering costs on the Company's behalf. On May 31, 2012, the Company has recorded a due to affiliate liability and capitalized the deferred Offering costs as it is expected that the Company will raise sufficient capital that it will be required to reimburse the Advisers for these costs. As of December 31, 2014, the balance of the due to affiliate liability was $2.4 million. On a regular basis, management reviews capital raise projections to evaluate the likelihood of the capital raise reaching a level that would require the Company to reimburse the Adviser for the Offering costs incurred on the Company's behalf. Based on the $6.8 million of offering costs incurred by the Advisers through December 31, 2014, the Company would have to raise approximately $453.3 million to be obligated to reimburse the Advisers for all of these costs. Commencing with the Company's initial closing, which occurred on September 17, 2012, and continuing with every closing thereafter, 1.5% of the proceeds of such closings will be amortized as a charge to additional paid in capital and a reduction of deferred offering costs, until such asset is fully amortized. As of December 31, 2014, approximately $4.4 million has been amortized. The Company expects to reimburse the Advisers for such costs incurred on its behalf on a monthly basis up to a maximum aggregate amount of 1.5% of the gross Offering proceeds.

The table below outlines fees incurred and expense reimbursements payable to Hines, Main Street and their affiliates for the years ended December 31, 2014, 2013 and 2012 and amounts unpaid as of December 31, 2014 and 2013 (in thousands).

| | Incurred | | | Unpaid as of | |
|---|---|---|---|---|---|
| **Type and Recipient** | **Year Ended December 31, 2014** | **Year Ended December 31, 2013** | **Year Ended December 31, 2012** | **December 31, 2014** | **December 31, 2013** |
| Base Management Fees (1) - the Adviser, Sub-Adviser | $ 3,755 | $ — | $ — | $ 2,080 | $ — |
| Incentive Fees on Income (1) - the Adviser, Sub-Adviser | — | — | — | — | — |
| Capital Gains Incentive Fee (1) - the Adviser, Sub-Adviser | — | — | — | — | — |
| Offering Costs - the Adviser, Sub-Adviser | 2,495 | 1,792 | 2,529 | 2,388 | 3,690 |
| Expense Support from Adviser (2) | (328) | (220) | — | — | 67 |
| Other (3) - the Adviser | 402 | 349 | 393 | 62 | 20 |
| Interest Expense – Main Street Capital Corporation | — | — | 101 | — | — |
| Management Fees – Main Street Capital Corporation | — | — | 15 | — | — |
| Selling Commissions - Dealer Manager | 15,538 | 2,531 | 76 | — | (5) |
| Dealer Manager Fee - Dealer Manager | 7,437 | 1,195 | 33 | — | (1) |
| **Due to Affiliates** | | | | $ 4,530 | $ 3,771 |

(1)Net of amounts waived by the Adviser and Sub-Adviser.
(2)Pursuant to the 2013 Expense Reimbursement Agreement, the Adviser made a payment of $220,000 to the Company in December 2013, based upon estimates of Company's operating expenses. Upon finalization of Company's financial statements, the Company determined that the 2013 Expense Support Payment was $67,000 higher than required for the Company to achieve the Operating Expense Objective for 2013, as defined in the 2013 Expense Reimbursement Agreement. As of December 31, 2013, the Company owed the Adviser $67,000 for this overpayment, which was made in the first quarter of 2014. As discussed above, expense support of $328,000 has been recognized for the year ended December 31, 2014. This amount was received by the Company on October 30, 2014.
(3)Includes amounts the Adviser paid on behalf of the Company such as general and administrative services expenses.

**Note 10 – Share Repurchase Plan**

The Company conducts quarterly tender offers pursuant to its share repurchase program. Under the terms of the plan, the Company will offer to purchase shares at the net asset value per share, as determined within 48 hours prior to the repurchase date. The Company currently limits the number of shares to be repurchased (i) during any calendar year to the proceeds it receives from the issuance of shares of its common stock under its distribution reinvestment plan during the trailing four quarters and (ii) in any calendar quarter to 2.5% of the weighted average number of shares of common stock outstanding during the trailing four quarters. At the discretion of the Company's board of directors, the Company may also use cash on hand, cash available from borrowings and cash from the sale of investments as of the end of the applicable period to repurchase shares. The Company's board of directors may amend, suspend or terminate the share repurchase program upon 30 days' notice. The Company's first repurchase date was October 1, 2013. Since inception of our share repurchase program, the Company funded the repurchase of $162,000 in shares. For the years ended December 31, 2014 and 2013, the Company funded approximately $158,000 and $4,000 respectively for shares tendered for repurchase under the plan approved by the board of directors. Since inception of the share repurchase program, the Company has funded all redemption requests validly tendered and not withdrawn.

**Note 11 – Commitments and Contingencies**

At December 31, 2014, the Company had a total of approximately $6.4 million in outstanding commitments comprised of (i) four commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) one capital commitment that had not been fully called.

**Note 12 – Subsequent Events**

From January 1, 2015 through February 28, 2015, the Company has raised approximately $64.3 million in the public offering. During this period, the Company has funded approximately $132.8 million in investments and received proceeds from repayments and dispositions of approximately $12.3 million.

On January 5, 2015, the Company had two investments, with one portfolio company, with a combined principal balance of $4.4 million that were scheduled to mature. The borrower on these investments failed to repay the principal and accrued interest that was due on that date. The failure to repay constituted an event of default, and the Company is currently working with the borrower to maximize recovery of the amounts borrowed.

On January 9, 2015, the Company decreased its public offering price from $10.00 per share to $9.75 per share. This decrease in the public offering price will be effective as of our January 15, 2015 weekly closing. In accordance with the Company's share pricing policy, its board of directors determined that a reduction in the public offering price per share was warranted following a decline in our estimated net asset value per share to an amount more than 5% below our then-current net offering price. The decline in the estimated net asset value per share was primarily driven by the recent impact of broad price declines in the high yield bond and leveraged loan markets and the effect of declining oil prices on the Company's investments in companies in the oil and gas sector. As a result of the decrease in the public offering price per share, the maximum combined sales commission and dealer manager fee per share and the net proceeds per share will correspondingly decrease from $1.00 to $0.97 and $9.00 to $8.78, respectively.

Effective as of February 3, 2015, the board of directors of the Company elected David M. Covington to the newly created position of Chief Accounting Officer and Treasurer of the Company and the general partner of the Adviser. In these positions, Mr. Covington is responsible for the oversight of the treasury, accounting, financial reporting and SEC reporting functions. He is also responsible for establishing the companies' accounting policies and ensuring compliance with those policies.

On February 4, 2015, the Company's wholly-owned Structured Subsidiary, the Company, Deutsche Bank and the Collateral Agent entered into the Third Amendment to the HMS Funding Facility increasing the borrowing capacity to $200 million. No other terms or conditions were modified as a result of this agreement.

On February 12, 2015, the Company filed a tender offer statement on Schedule TO with the SEC, to commence an offer by the Company to purchase, as approved by the board of directors, 400,571.32 shares of the Company's issued and outstanding common stock, par value $0.001 per share. The offer is for cash at a purchase price equal to the net asset value per share to be determined within 48 hours of the repurchase date.

On March 2, 2015, the Advisers entered into an agreement which allowed the Adviser to waive subordinated incentive fees on income that would have otherwise been payable to the Sub-Adviser for the quarter ended December 31, 2014.

**Note 13 – Quarterly Financial Data (UNAUDITED)**

The following table presents selected unaudited quarterly financial data for each quarter during theyears ended December 31, 2014, 2013 and 2012 (in thousands except per share and per unit amounts):

| | Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2014 | June 30, 2014 | September 30, 2014 | December 31, 2014 |
| Total interest income | $ 1,661 | $ 3,210 | $ 5,647 | $ 8,695 |
| Net investment income | $ 824 | $ 1,845 | $ 3,673 | $ 4,855 |
| Net realized gain (loss) from investments | 69 | 82 | 65 | (196) |
| Net unrealized appreciation (depreciation) | $ 228 | $ 44 | $ (1,900) | $ (12,586) |
| Net increase (decrease) in net assets resulting from operations | $ 1,121 | $ 1,971 | $ 1,838 | $ (7,927) |
| Net investment income per share/unit – basic and diluted | $ 0.11 | $ 0.16 | $ 0.20 | $ 0.18 |
| Net increase (decrease) in net assets resulting from operations per share/unit – basic and diluted | $ 0.15 | $ 0.17 | $ 0.10 | $ (0.30) |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2013 | June 30, 2013 | September 30, 2013 | December 31, 2013 |
| Total interest income | $ 392 | $ 559 | $ 808 | $ 999 |
| Net investment income | $ 101 | $ 297 | $ 498 | $ 809 |
| Net realized gain from investments | — | 4 | — | 23 |
| Net unrealized appreciation (depreciation) | $ 207 | $ (69) | $ 250 | $ 33 |
| Net increase in net assets resulting from operations | $ 308 | $ 232 | $ 748 | $ 865 |
| Net investment income per share/unit – basic and diluted | $ 0.07 | $ 0.15 | $ 0.17 | $ 0.19 |
| Net increase in net assets resulting from operations per share/unit – basic and diluted | $ 0.22 | $ 0.11 | $ 0.26 | $ 0.21 |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2012 | June 30, 2012 | September 30, 2012 | December 31, 2012 |
| Total interest income | $ 415 | $ 410 | $ 464 | $ 584 |
| Net investment income | $ 339 | $ 271 | $ 262 | $ 262 |
| Net realized gain from investments | — | — | 12 | 2 |
| Net unrealized appreciation (depreciation) | $ 155 | $ (2) | $ 33 | $ (99) |
| Net increase in net assets resulting from operations | $ 494 | $ 269 | $ 307 | $ 165 |
| Net investment income per share/unit – basic and diluted | $ 0.30 | $ 0.24 | $ 0.23 | $ 0.22 |
| Net increase in net assets resulting from operations per share/unit – basic and diluted | $ 0.44 | $ 0.24 | $ 0.27 | $ 0.13 |

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders
HMS Income Fund, Inc.

We have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated financial statements of HMS Income Fund, Inc. (a Maryland corporation) and subsidiaries (the ‘‘Company’’) referred to in our report dated March 3, 2015, which is included in the annual report on Form 10-K. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(b), which is the responsibility of the Company’s management. In our opinion, this financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Houston, Texas
March 3, 2015

**HMS Income Fund, Inc.**
**Consolidated Schedule of Investments in and Advances to Affiliates**
**Year ended December 31, 2014**

| Company | Investments (1) | Amount of Interest or Dividends Credited to Income (2) | December 31, 2013 Value | Gross Additions (3) | Gross Deletions (4) | December 31, 2014 Value |
|---|---|---|---|---|---|---|
| **Control Investments** | | | | | | |
| **GRT Rubber Technologies, LLC** | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt | $ 30 | $ — | $ 8,086 | $ — | $ 8,086 |
| | Common Stock | — | — | 6,435 | — | 6,435 |
| | **Total Control** | $ 30 | $ — | $ 14,521 | $ — | $ 14,521 |
| **Affiliate Investments** | | | | | | |
| **AFG Capital Group, LLC** | 11.00% Secured Debt | $ 30 | $ — | $ 1,596 | $ — | $ 1,596 |
| | Common Stock | — | — | 300 | — | 300 |
| | Warrants | — | — | 65 | — | 65 |
| **Mystic Logistics, Inc.** | 12.00% Secured Debt | 114 | — | 2,427 | — | 2,427 |
| | Common Stock | — | — | 680 | — | 680 |
| **SoftTouch Medical Holdings, LLC** | 12.00% Secured Debt | 26 | — | 1,471 | — | 1,471 |
| | Common Stock | — | — | 885 | — | 885 |
| | **Total Affiliate** | $ 170 | $ — | $ 7,424 | $ — | $ 7,424 |

This schedule should be read in conjunction with HMS Income Fund's Consolidated Financial Statements, including the Consolidated Schedule of Investments and Notes to the Consolidated Financial Statements.

(1) The principal amount, the ownership detail for equity investments and if the investment is income producing is shown in the Consolidated Schedule of Investments.

(2) Represents the total amount of interest, fees or dividends credited to income for the portion of the year an investment was included in Control or Affiliate categories, respectively. For investments transferred between Control and Affiliate categories during the year, any income related to the time period it was in the category other than the one shown at year end is included in "Income from investments transferred from Control during the year" or "Income from investments transferred from Affiliate during the year".

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investment, follow on investments and accrued PIK interest, and the exchange of one or more existing securities for one or more new securities. Gross Additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation as well as the movement of an existing portfolio company into this category and out of a different category.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include net increases in unrealized depreciation or net decreases in unrealized appreciation as well as the movement of an existing portfolio company out of this category and into a different category.

**Item 9.** ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

**Item 9A.** ***Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2014, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management's assessment of the effectiveness of our internal control system as of December 31, 2014 was based on the framework for effective internal control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, as of December 31, 2014, our system of internal control over financial reporting was effective at the reasonable assurance level.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding control over financial reporting. Management's report was not subject to attestation by the company's independent registered public accounting firm pursuant to Section 989G of the Dodd-Frank Wall Street and Consumer Protection Act, which exempts non-accelerated filers from the auditor attestation requirement of section 404 (b) of the Sarbanes-Oxley Act.

March 3, 2015

**Changes in Internal Control Over Financial Reporting**

During the year ended December 31, 2014, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B.** ***Other Information***

None.

## PART III

Certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

### Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this Item is incorporated by reference to our definitive Proxy Statement relating to the Company's 2015 Annual Meeting of Stockholders, to be filed with the SEC no later than April 30, 2015.

### Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference to our definitive Proxy Statement relating to the Company's 2015 Annual Meeting of Stockholders, to be filed with the SEC no later than April 30, 2015.

### Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is incorporated by reference to our definitive Proxy Statement relating to the Company's 2015 Annual Meeting of Stockholders, to be filed with the SEC no later than April 30, 2015.

### Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item is incorporated by reference to our definitive Proxy Statement relating to the Company's 2015 Annual Meeting of Stockholders, to be filed with the SEC no later than April 30, 2015.

### Item 14. *Principal Accounting Fees and Services*

The information required by this Item is incorporated by reference to our definitive Proxy Statement relating to the Company's 2015 Annual Meeting of Stockholders, to be filed with the SEC no later than April 30, 2015.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

a. **Consolidated Financial Statements**

The following financial statements are set forth in Item 8:



b. **Consolidated Financial Statement Schedules**

Report of Independent Registered Public Accounting Firm

Consolidated Schedule of Investments in and Advances to Affiliates for the Year EndedDecember 31, 2014

c. **Exhibits**

The following exhibits are filed as part of this annual report on Form 10-K or hereby incorporated by reference to exhibits previously filed with the SEC:

| | |
|---|---|
| 2.1 | Agreement and Plan of Merger (filed as Exhibit (k)(3) to Pre-Effective Amendment No. 3 to the Registrant’s Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 3.1 | Articles of Amendment and Restatement (filed as Exhibit (a)(2) to Pre-Effective Amendment No. 3 to the Registrant’s Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 3.2 | Amended and Restated Bylaws (filed as Exhibit 3.2 to the Registrant's annual report on Form 10-K filed March 3, 2014 incorporated herein by reference). |
| 4.1 | Distribution Reinvestment Plan (filed as Exhibit (e) to Post-Effective Amendment No. 2 to the Registrant’s Registration Statement on Form N-2, filed on September 28, 2012 and incorporated herein by reference). |
| 4.2 | Form of Subscription Agreement (filed as Appendix A to the Registrant’s prospectus supplement to the prospectus dated April 28, 2014 (File No. 333-178548), filed pursuant to Rule 497 on February 25, 2015 and incorporated herein by reference). |
| 10.1 | Loan and Security Agreement (filed as Exhibit (k)(2) to the Registrant’s Registration Statement on Form N-2, filed on December 16, 2011 and incorporated herein by reference). |
| 10.2 | Investment Advisory and Administrative Services Agreement between the Registrant and HMS Adviser LP (filed as Exhibit (g)(1) to Pre-Effective Amendment No. 3 to the Registrant’s Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 10.3 | Investment Sub-Advisory Agreement by and among the Registrant, HMS Adviser LP, Main Street Capital Partners, LLC and Main Street Capital Corporation (filed as Exhibit (g)(2) to Pre-Effective Amendment No. 3 to the Registrant’s Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 10.4 | Assignment and Assumption of Investment Sub-Advisory Agreement by and among Main Street Capital Partners, LLC, Main Street Capital Corporation and MSC Adviser I, LLC (filed as Exhibit 10.4 to the Registrant's annual report on Form 10-K filed on March 3, 2014 and incorporated herein by reference). |
| 10.5 | Dealer Manager Agreement between the Registrant and Hines Securities, Inc. (filed as Exhibit (h)(1) to Pre-Effective Amendment No. 3 to the Registrant’s Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 10.6 | Custody Agreement between the Registrant and Amegy Bank National Association (filed as Exhibit (j) to Pre-Effective Amendment No. 3 to the Registrant’s Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |

| | |
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| 10.7 | Conditional Fee Waiver Agreement between the Registrant, HMS Adviser LP and Main Street Capital Partners, LLC (filed as Exhibit (k)(1) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 10.8 | Credit Agreement among the Registrant and Capital One, National Association (filed as Exhibit (k)(4) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2 (File No. 333-178548), filed on May 31, 2012 and incorporated herein by reference). |
| 10.9 | Form of Indemnification for Affiliated Directors and Officers (filed as Exhibit (k)(5) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2 (File No. 333-178548), filed on May 31, 2012 and incorporated herein by reference). |
| 10.10 | Form of Indemnification for Independent Directors (filed as Exhibit (k)(6) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2 (File No. 333-178548), filed on May 31, 2012 and incorporated herein by reference). |
| 10.11 | Escrow Agreement between the Registrant, Hines Securities, Inc. and UMB Bank, N.A. (filed as Exhibit (k)(7) to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form N-2 (File No. 333-178548), filed on June 25, 2012 and incorporated herein by reference). |
| 10.12 | Amended and Restated Conditional Fee Waiver Agreement between the Registrant, HMS Adviser LP, Main Street Capital Corporation and Main Street Capital Partners, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on January 6, 2014 and incorporated herein by reference). |
| 10.13 | Senior Secured Revolving Credit Agreement, dated as of March 11, 2014, by and among the Registrant, Capital One, National Association and the financial institutions party thereto (filed as exhibit 10.1 to the Registrant's current report on Form 8-K, filed March 14, 2014 and incorporated herein by reference). |
| 10.14 | Amendment dated March 31, 2014 to Expense Support and Conditional Reimbursement Agreement by and between the Registrant and HMS Adviser LP (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed on April 2, 2014 and incorporated herein by reference). |
| 10.15 | First Amendment to Senior Secured Revolving Credit Agreement, dated as of May 30, 2014, by and among the Registrant, Capital One, National Association, and the financial institutions party thereto (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed June 5, 2014 and incorporated herein by reference). |
| 10.16 | Loan Financing and Servicing Agreement, dated as of June 2, 2014, by and among HMS Funding I, LLC, the Registrant, the financial institutions party thereto, and Deutsche Bank AG, New York branch (filed as Exhibit 10.2 to the Registrant's current report on Form 8-K, filed June 5, 2014 and incorporated herein by reference). |
| 10.17 | Second Amendment, dated June 30, 2014, to the Expense Support and Conditional Reimbursement Agreement by and between the Registrant and HMS Adviser LP (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed June 30, 2014 and incorporated herein by reference). |
| 10.18 | Amendment No. 1 to the Loan Financing and Servicing Agreement, dated as of June 2, 2014, by and among HMS Funding I, LLC, the Registrant, the financial institutions party thereto, and Deutsche Bank AG, New York branch (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed July 25, 2014 and incorporated herein by reference). |
| 10.19 | Second Amendment to Senior Secured Revolving Credit Agreement, dated as of September 22, 2014, by and among the Registrant, Capital One, National Association, and the financial institutions party thereto and HMS Equity Holding, LLC (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed September 25, 2014 and incorporated herein by reference). |
| 10.20 | Third Amendment, dated September 30, 2014, to the Expense Support and Conditional Reimbursement Agreement by and between the Registrant and HMS Adviser LP (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed September 30, 2014 and incorporated herein by reference). |
| 10.21 | Amendment No. 2 to the Loan Financing and Servicing Agreement, dated as of December 3, 2014, by and among HMS Funding I, LLC, the Registrant, the financial institutions party thereto, and Deutsche Bank AG, New York branch (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, December 8, 2014 and incorporated herein by reference). |
| 10.22 | Amendment No. 3 to the Loan Financing and Servicing Agreement, dated as of February 4, 2015, by and among HMS Funding I, LLC, the Registrant, the financial institutions party thereto, and Deutsche Bank AG, New York branch (filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed February 9, 2015 and incorporated herein by reference). |
| 14.1 | Code of Ethics of the Registrant (filed as Exhibit (r)(1) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 14.2 | Code of Ethics of HMS Adviser LP (filed as Exhibit (r)(2) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
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| 14.4 | Code of Ethics of Hines Securities, Inc. (filed as Exhibit (r)(4) to Pre-Effective Amendment No. 3 to the Registrant's Registration Statement on Form N-2, filed on May 31, 2012 and incorporated herein by reference). |
| 21.1 | List of Subsidiaries |
| 31.1 | Certification of President and Chief Executive Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith). |
| 31.2 | Certification of Chief Financial Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith). |
| 32.1 | Certification of President and Chief Executive Officer and Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith). |

* * * * * *

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | | |
|---|---|---|---|
| | | | HMS INCOME FUND, INC. |
| Date: | March 3, 2015 | By: | /s/ SHERRI W. SCHUGART<br>Sherri W. Schugart<br>Chairperson, Chief Executive Officer and President |
| Date: | March 3, 2015 | By: | /s/ RYAN T. SIMS<br>Ryan T. Sims<br>Chief Financial Officer and Secretary |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Sherri W. Schugart<br>Sherri W. Schugart | Chairperson, Chief Executive Officer and President<br>(Principal Executive Officer) | March 3, 2015 |
| /s/ Ryan T. Sims<br>Ryan T. Sims | Chief Financial Officer and Secretary<br>(Principal Financial Officer) | March 3, 2015 |
| /s/ David M. Covington<br>David M. Covington | Chief Accounting Officer and Treasurer<br>(Principal Accounting Officer) | March 3, 2015 |
| /s/ John O. Niemann, Jr.<br>John O. Niemann, Jr. | Director | March 3, 2015 |
| /s/ Peter Shaper<br>Peter Shaper | Director | March 3, 2015 |
| /s/ Gregory Geib<br>Gregory Geib | Director | March 3, 2015 |
| /s/ Curtis L. Hartman<br>Curtis L. Hartman | Director | March 3, 2015 |

**EXHIBIT INDEX**

| Exhibit No. | Description |
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| 21.1 | List of Subsidiaries |
| 31.1 | Certification of President and Chief Executive Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith). |
| 31.2 | Certification of Chief Financial Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith). |
| 32.1 | Certification of President and Chief Executive Officer and Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith). |

**EXHIBIT 21.1**

**LIST OF SUBSIDIARIES**

HMS Equity Holding LLC, a Delaware limited liability company

HMS Funding I LLC a Delaware limited liability company

**EXHIBIT 31.1**

**CERTIFICATION**
**PURSUANT TO SECTION 302 OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, Sherri W. Schugart, certify that:

1. I have reviewed this Annual Report on Form 10-K of HMS Income Fund, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2015

By: /s/ SHERRI W. SCHUGART
Sherri W. Schugart
Chairperson, Chief Executive Officer and President

**EXHIBIT 31.2**

**CERTIFICATION
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Ryan T. Sims, certify that:

1. I have reviewed this Annual Report on Form 10-K of HMS Income Fund, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | | |
|---|---|---|---|
| Date: | March 3, 2015 | By: | /s/ RYAN T. SIMS |
| | | | Ryan T. Sims |
| | | | Chief Financial Officer and Secretary |

**EXHIBIT 32.1**

**WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES — OXLEY ACT OF 2002**

The undersigned, the Chief Executive Officer and the Chief Financial Officer of HMS Income Fund, Inc. ("the Company"), each hereby certifies that to his or her knowledge, on the date hereof:

(a) the Annual Report on Form 10-K of the Company for the year endedDecember 31, 2014, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section l3(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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| Date: | March 3, 2015 | By: | /s/ SHERRI W. SCHUGART |
| | | | Sherri W. Schugart |
| | | | Chairperson, Chief Executive Officer and President |
| Date: | March 3, 2015 | By: | /s/ RYAN T. SIMS |
| | | | Ryan T. Sims |
| | | | Chief Financial Officer and Secretary |