

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark  
One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2015**

**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**

**HMS Income Fund, Inc.**

*(Exact Name of Registrant as Specified in its Charter)*

**Maryland**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**45-3999996**  
*(I.R.S. Employer  
Identification No.)*

**2800 Post Oak Boulevard  
Suite 5000  
Houston, Texas**  
*(Address of Principal Executive Offices)*

**77056-6118**  
*(Zip Code)*

**(888) 220-6121**

*(Registrant's telephone number, including area code)*

**Not applicable**

*(Former name, former address and formal fiscal year, if changed since last report)*

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 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 ☒

Smaller reporting company ☐

*(Do not check if a smaller  
reporting company)*

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

The issuer had 44,110,316 shares of common stock outstanding as of April 30, 2015.

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## PART I — FINANCIAL INFORMATION

### Item 1. Condensed Consolidated Financial Statements

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

|                                                                                                                                                                          | March 31, 2015<br>(Unaudited) | December 31, 2014 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------|
| <b>ASSETS</b>                                                                                                                                                            |                               |                   |
| Portfolio investments at fair value:                                                                                                                                     |                               |                   |
| Non-Control/Non-Affiliate investments (amortized cost: \$646,600 and \$465,663 as of March 31, 2015 and December 31, 2014, respectively)                                 | \$ 635,767                    | \$ 451,917        |
| Affiliate investments (amortized cost: \$8,639 and \$7,420 as of March 31, 2015 and December 31, 2014, respectively)                                                     | 9,572                         | 7,424             |
| Control investments (amortized cost: \$14,527 and \$14,521 as of March 31, 2015 and December 31, 2014, respectively)                                                     | 14,527                        | 14,521            |
| Total portfolio investments (amortized cost: \$669,766 and \$487,604 as of March 31, 2015 and December 31, 2014, respectively)                                           | 659,866                       | 473,862           |
| Cash and cash equivalents                                                                                                                                                | 23,909                        | 19,868            |
| Interest receivable                                                                                                                                                      | 6,006                         | 4,328             |
| Receivable for securities sold                                                                                                                                           | 1,000                         | 3,014             |
| Prepaid and other assets                                                                                                                                                 | 1,703                         | 338               |
| Deferred offering costs (net of accumulated amortization of \$5,904 and \$4,428 as of March 31, 2015 and December 31, 2014, respectively)                                | 1,467                         | 2,388             |
| Deferred financing costs (net of accumulated amortization of \$793 and \$582 as of March 31, 2015 and December 31, 2014, respectively)                                   | 2,967                         | 2,426             |
| <b>Total assets</b>                                                                                                                                                      | <b>\$ 696,918</b>             | <b>\$ 506,224</b> |
| <b>LIABILITIES</b>                                                                                                                                                       |                               |                   |
| Accounts payable and other liabilities                                                                                                                                   | \$ 306                        | \$ 246            |
| Payable for unsettled trades                                                                                                                                             | 4,450                         | 6,249             |
| Stockholder distributions payable                                                                                                                                        | 2,353                         | 1,760             |
| Due to affiliates                                                                                                                                                        | 4,470                         | 4,530             |
| Payable for securities purchased                                                                                                                                         | 68,859                        | 50,512            |
| Notes payable                                                                                                                                                            | 264,000                       | 182,864           |
| <b>Total liabilities</b>                                                                                                                                                 | <b>344,438</b>                | <b>246,161</b>    |
| Commitments and Contingencies (Note 11)                                                                                                                                  |                               |                   |
| <b>NET ASSETS</b>                                                                                                                                                        |                               |                   |
| Common stock, \$.001 par value; 150,000,000 shares authorized, 41,153,325 and 30,967,120 issued and outstanding as of March 31, 2015 and December 31, 2014, respectively | 41                            | 31                |
| Additional paid in capital                                                                                                                                               | 362,254                       | 273,774           |
| Accumulated net investment income, net of stockholder distributions                                                                                                      | 87                            | —                 |
| Net unrealized appreciation (depreciation)                                                                                                                               | (9,902)                       | (13,742)          |
| <b>Total net assets</b>                                                                                                                                                  | <b>352,480</b>                | <b>260,063</b>    |
| <b>Total liabilities and net assets</b>                                                                                                                                  | <b>\$ 696,918</b>             | <b>\$ 506,224</b> |
| <b>Net asset value per share</b>                                                                                                                                         | <b>\$ 8.57</b>                | <b>\$ 8.40</b>    |

*See notes to the condensed consolidated financial statements.*

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

|                                                                                           | <b>Three Months Ended</b> |                       |
|-------------------------------------------------------------------------------------------|---------------------------|-----------------------|
|                                                                                           | <b>March 31, 2015</b>     | <b>March 31, 2014</b> |
| <b>INVESTMENT INCOME:</b>                                                                 |                           |                       |
| Interest, fee and dividend income:                                                        |                           |                       |
| Non-Control/Non-Affiliate investments                                                     | \$ 11,358                 | \$ 1,661              |
| Affiliate investments                                                                     | 199                       | —                     |
| Control investments                                                                       | 236                       | —                     |
| Total interest, fee and dividend income                                                   | 11,793                    | 1,661                 |
| <b>EXPENSES:</b>                                                                          |                           |                       |
| Interest expense                                                                          | 1,975                     | 200                   |
| Base management and incentive fees                                                        | 3,365                     | 606                   |
| Administrative services expenses                                                          | 437                       | 329                   |
| Professional fees                                                                         | 203                       | 210                   |
| Insurance                                                                                 | 49                        | 46                    |
| Other general and administrative                                                          | 232                       | 78                    |
| Expenses before fee and expense waivers                                                   | 6,261                     | 1,469                 |
| Waiver of management and incentive fees                                                   | (358)                     | (303)                 |
| Waiver of administrative services expenses                                                | (437)                     | (329)                 |
| Total expenses, net of fee and expense waivers                                            | 5,466                     | 837                   |
| <b>NET INVESTMENT INCOME</b>                                                              | <b>6,327</b>              | <b>824</b>            |
| <b>NET REALIZED GAIN FROM INVESTMENTS</b>                                                 |                           |                       |
| Non-Control/Non-Affiliate investments                                                     | 20                        | 69                    |
| Affiliate investments                                                                     | —                         | —                     |
| Control investments                                                                       | —                         | —                     |
| Total realized gain from investments                                                      | 20                        | 69                    |
| <b>NET REALIZED INCOME</b>                                                                | <b>6,347</b>              | <b>893</b>            |
| <b>NET UNREALIZED APPRECIATION (DEPRECIATION)</b>                                         |                           |                       |
| Non-Control/Non-Affiliate investments                                                     | 2,912                     | 228                   |
| Affiliate investments                                                                     | 928                       | —                     |
| Control investments                                                                       | —                         | —                     |
| Total net unrealized appreciation (depreciation)                                          | 3,840                     | 228                   |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>                               | <b>\$ 10,187</b>          | <b>\$ 1,121</b>       |
| <b>NET INVESTMENT INCOME PER SHARE – BASIC AND DILUTED</b>                                | <b>\$ 0.17</b>            | <b>\$ 0.11</b>        |
| <b>NET REALIZED INCOME PER SHARE</b>                                                      | <b>\$ 0.18</b>            | <b>\$ 0.12</b>        |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE – BASIC AND DILUTED</b> | <b>\$ 0.28</b>            | <b>\$ 0.15</b>        |
| <b>DISTRIBUTIONS DECLARED PER SHARE</b>                                                   | <b>\$ 0.17</b>            | <b>\$ 0.17</b>        |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED</b>                            | <b>36,265,941</b>         | <b>7,388,639</b>      |

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Condensed Consolidated Statements of Change in Net Assets**  
**For the Three Months Ended March 31, 2015 and March 31, 2014**  
**(in thousands, except number of shares)**  
**(Unaudited)**

|                                                         | Common Stock        |              |                                  |                                                                                 |                                                                             |                                                       |                                                     |                     |  |
|---------------------------------------------------------|---------------------|--------------|----------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------|---------------------|--|
|                                                         | Number of<br>Shares | Par<br>Value | Additional<br>Paid-In<br>Capital | Accumulated<br>Net Investment<br>Income, Net<br>of Stockholder<br>Distributions | Accumulated<br>Net Realized<br>Gain, Net of<br>Stockholder<br>Distributions | Distributions<br>from Other<br>Sources <sup>(1)</sup> | Net<br>Unrealized<br>Appreciation<br>(Depreciation) | Total Net<br>Assets |  |
| Balance at December 31, 2014                            | 30,967,120          | \$ 31        | \$ 273,774                       | \$ —                                                                            | \$ —                                                                        | \$ —                                                  | \$ (13,742)                                         | \$ 260,063          |  |
| Issuance of common stock                                | 10,220,047          | 10           | 98,902                           | —                                                                               | —                                                                           | —                                                     | —                                                   | 98,912              |  |
| Redemption of common stock                              | (33,842)            | —            | (289)                            | —                                                                               | —                                                                           | —                                                     | —                                                   | (289)               |  |
| Selling commissions and<br>dealer manager fees          | —                   | —            | (8,657)                          | —                                                                               | —                                                                           | —                                                     | —                                                   | (8,657)             |  |
| Offering costs                                          | —                   | —            | (1,476)                          | —                                                                               | —                                                                           | —                                                     | —                                                   | (1,476)             |  |
| Stockholder distributions<br>declared                   | —                   | —            | —                                | (6,240)                                                                         | (20)                                                                        | —                                                     | —                                                   | (6,260)             |  |
| Net increase in net assets<br>resulting from operations | —                   | —            | —                                | 6,327                                                                           | 20                                                                          | —                                                     | 3,840                                               | 10,187              |  |
| Balance at March 31, 2015                               | 41,153,325          | \$ 41        | \$ 362,254                       | \$ 87                                                                           | \$ —                                                                        | \$ —                                                  | \$ (9,902)                                          | \$ 352,480          |  |

|                                                      | Common Stock     |           |                            |                                                                     |                                                                 |                                                 |                             |                  |  |
|------------------------------------------------------|------------------|-----------|----------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------|-----------------------------|------------------|--|
|                                                      | Number of Shares | Par Value | Additional Paid-In Capital | Accumulated Net Investment Income, Net of Stockholder Distributions | Accumulated Net Realized Gain, Net of Stockholder Distributions | Distributions from Other Sources <sup>(1)</sup> | Net Unrealized Appreciation | Total Net Assets |  |
| Balance at December 31, 2013                         | 5,396,967        | \$ 5      | \$ 47,600                  | \$ —                                                                | \$ —                                                            | \$ —                                            | \$ 472                      | \$ 48,077        |  |
| Issuance of common stock                             | 3,977,411        | 4         | 39,318                     | —                                                                   | —                                                               | —                                               | —                           | 39,322           |  |
| Redemption of common stock                           | (395)            | —         | (15)                       | —                                                                   | —                                                               | —                                               | —                           | (15)             |  |
| Selling commissions and dealer manager fees          | —                | —         | (3,559)                    | —                                                                   | —                                                               | —                                               | —                           | (3,559)          |  |
| Offering costs                                       | —                | —         | (590)                      | —                                                                   | —                                                               | —                                               | —                           | (590)            |  |
| Stockholder distributions declared                   | —                | —         | —                          | (824)                                                               | (69)                                                            | (383)                                           | —                           | (1,276)          |  |
| Net increase in net assets resulting from operations | —                | —         | —                          | 824                                                                 | 69                                                              | —                                               | 228                         | 1,121            |  |
| Balance at March 31, 2014                            | 9,373,983        | \$ 9      | \$ 82,754                  | \$ —                                                                | \$ —                                                            | \$ (383)                                        | \$ 700                      | \$ 83,080        |  |

*See notes to the condensed consolidated financial statements.*

(1) Please see discussion of Other Sources of Distributions in Note 6-Stockholder Distributions.

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

|                                                                                                                         | <b>Three Months Ended<br/>March 31, 2015</b> | <b>Three Months Ended<br/>March 31, 2014</b> |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                             |                                              |                                              |
| Net increase in net assets resulting from operations                                                                    | \$ 10,187                                    | \$ 1,121                                     |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: |                                              |                                              |
| Principal repayments received and proceeds from sales of investments in portfolio companies                             | 24,588                                       | 12,942                                       |
| Investments in portfolio companies                                                                                      | (187,231)                                    | (49,359)                                     |
| Net unrealized depreciation (appreciation) of portfolio investments                                                     | (3,840)                                      | (228)                                        |
| Net realized (gain) on sale of portfolio investments                                                                    | (20)                                         | (69)                                         |
| Amortization of deferred financing costs                                                                                | 211                                          | 41                                           |
| Accretion of unearned income                                                                                            | (489)                                        | (215)                                        |
| Net payment-in-kind interest accrual                                                                                    | (194)                                        | —                                            |
| Changes in other assets and liabilities:                                                                                |                                              |                                              |
| Interest receivable                                                                                                     | (1,678)                                      | (440)                                        |
| Prepaid and other assets                                                                                                | 178                                          | 23                                           |
| Due to affiliates                                                                                                       | 2,355                                        | 917                                          |
| Accounts payable and other liabilities                                                                                  | 60                                           | 19                                           |
| Payable for unsettled trades                                                                                            | (1,799)                                      | (203)                                        |
| Net cash used in operating activities                                                                                   | <u>(157,672)</u>                             | <u>(35,451)</u>                              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                                             |                                              |                                              |
| Proceeds from issuance of common stock                                                                                  | 94,552                                       | 38,313                                       |
| Redemption of common shares                                                                                             | (289)                                        | (15)                                         |
| Payment of selling commissions and dealer manager fees                                                                  | (8,675)                                      | (3,412)                                      |
| Payment of offering costs                                                                                               | (1,476)                                      | (591)                                        |
| Payment of stockholder distributions                                                                                    | (2,783)                                      | (631)                                        |
| Repayments on notes payable                                                                                             | (36,864)                                     | (40,000)                                     |
| Proceeds from notes payable                                                                                             | 118,000                                      | 53,500                                       |
| Payment of deferred financing costs                                                                                     | (752)                                        | (520)                                        |
| Net cash provided by financing activities                                                                               | <u>161,713</u>                               | <u>46,644</u>                                |
| Net increase in cash and cash equivalents                                                                               | 4,041                                        | 11,193                                       |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD                                                                | <u>19,868</u>                                | <u>6,356</u>                                 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD                                                                      | <u>\$ 23,909</u>                             | <u>\$ 17,549</u>                             |

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of March 31, 2015**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)                                                         | Business Description                                                  | Type of Investment (2) (3)                                                                                                              | Principal (7) | Cost (7)         | Fair Value       |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|------------------|------------------|
| <b>Control Investments (6)</b>                                                    |                                                                       |                                                                                                                                         |               |                  |                  |
| <b>GRT Rubber Technologies, LLC (8) (10) (13)</b>                                 | Engineered Rubber Product Manufacturer                                | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - December 19, 2019)<br><br>Member Units (2,896 shares)   | \$ 8,250      | \$ 8,092         | \$ 8,092         |
|                                                                                   |                                                                       |                                                                                                                                         |               | 6,435            | 6,435            |
|                                                                                   |                                                                       |                                                                                                                                         |               | 14,527           | 14,527           |
|                                                                                   |                                                                       |                                                                                                                                         |               |                  |                  |
| <b>Subtotal Control Investments (6) (2% of total investments at fair value)</b>   |                                                                       |                                                                                                                                         |               | <b>\$ 14,527</b> | <b>\$ 14,527</b> |
| <b>Affiliate Investments (4)</b>                                                  |                                                                       |                                                                                                                                         |               |                  |                  |
| <b>AFG Capital Group, LLC (10) (13)</b>                                           | Provider of Rent-to-Own Financing Solutions and Services              | 11.00% Secured Debt (Maturity Date - November 7, 2019)<br><br>Member Units (46 shares)<br><br>Warrants (10 equivalent shares)           | \$ 2,940      | \$ 2,810         | \$ 2,810         |
|                                                                                   |                                                                       |                                                                                                                                         |               | 300              | 300              |
|                                                                                   |                                                                       |                                                                                                                                         |               | 65               | 65               |
|                                                                                   |                                                                       |                                                                                                                                         |               | 3,175            | 3,175            |
| <b>Mystic Logistics, Inc. (10) (13)</b>                                           | Logistics and Distribution Services Provider for Large Volume Mailers | 12.00% Secured Debt (Maturity Date - August 15, 2019)<br><br>Member Units (1,468 shares)                                                | 2,500         | 2,427            | 2,500            |
|                                                                                   |                                                                       |                                                                                                                                         |               | 680              | 1,540            |
|                                                                                   |                                                                       |                                                                                                                                         |               | 3,107            | 4,040            |
| <b>SoftTouch Medical Holdings LLC (8) (10) (13)</b>                               | 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)<br><br>Member Units (798 shares) | 1,500         | 1,472            | 1,472            |
|                                                                                   |                                                                       |                                                                                                                                         |               | 885              | 885              |
|                                                                                   |                                                                       |                                                                                                                                         |               | 2,357            | 2,357            |
| <b>Subtotal Affiliate Investments (4) (2% of total investments at fair value)</b> |                                                                       |                                                                                                                                         |               | <b>\$ 8,639</b>  | <b>\$ 9,572</b>  |
| <b>Non-Control/Non-Affiliate Investments (5)</b>                                  |                                                                       |                                                                                                                                         |               |                  |                  |
| <b>Ability Network Inc. (8)</b>                                                   | Health Care Information Technology                                    | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - May 14, 2021)                                            | \$ 4,963      | \$ 4,913         | \$ 4,978         |
| <b>Allflex Holdings III Inc. (8) (12)</b>                                         | Manufacturer of Livestock Identification Products                     | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - July 19, 2021) (14)                                      | 12,422        | 12,514           | 12,468           |
| <b>AmeriTech College Operations, LLC (10) (13)</b>                                | For-Profit Nursing and Healthcare College                             | 10.00% Secured Debt, (Maturity - January 31, 2020)                                                                                      | 610           | 609              | 609              |
| <b>AMF Bowling Centers, Inc. (8) (12)</b>                                         | Bowling Alley Operator                                                | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - September 18, 2021)                                      | 10,945        | 10,851           | 10,899           |
| <b>Aptean, Inc. (8)</b>                                                           | Enterprise Application Software Provider                              | LIBOR Plus 4.25% (Floor 1.00%), Current Coupon 5.25%, Secured Debt (Maturity - February 26, 2020)                                       | 4,449         | 4,448            | 4,371            |
| <b>Arcus Hunting, LLC (8) (11)</b>                                                | Deer Lures, Attractants and Scent Elimination Products                | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - November 13, 2019)                                       | 4,547         | 4,425            | 4,425            |
| <b>Artel, LLC (8)</b>                                                             | Land-Based and Commercial Satellite Provider                          | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - November 27, 2017)                                       | 4,438         | 4,315            | 4,260            |
| <b>Berry Aviation, Inc. (11)</b>                                                  | Charter Airline Services                                              | 12.00% Current / 1.75% PIK Secured Debt (Maturity Date - January 30, 2020) (14)<br><br>Common Stock (138 shares)                        | 1,500         | 1,475            | 1,475            |
|                                                                                   |                                                                       |                                                                                                                                         |               | 100              | 100              |
|                                                                                   |                                                                       |                                                                                                                                         |               | 1,575            | 1,575            |
| <b>Bioventus, LLC (8) (11)</b>                                                    | 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         | 6,872            | 7,000            |
| <b>Blackbrush Oil and Gas LP (8)</b>                                              | Oil & Gas Exploration                                                 | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - July 30, 2021) (14)                                      | 12,085        | 11,614           | 9,819            |
| <b>Blackhawk Specialty Tools LLC (8)</b>                                          | Oilfield Equipment & Services                                         | LIBOR Plus 5.25% (Floor 1.25%), Current Coupon 6.50%, Secured Debt (Maturity - August 1, 2019)                                          | 1,405         | 1,405            | 1,366            |
| <b>Blue Bird Body Company (8)</b>                                                 | School Bus Manufacturer                                               | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity - June 26, 2020)                                           | 5,925         | 5,846            | 5,932            |

| Portfolio Company (1) (3)                                           | Business Description                                               | Type of Investment (2) (3)                                                                            | Principal (7) | Cost (7) | Fair Value |
|---------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|---------------|----------|------------|
| <b>Bluestem Brands, Inc. (8)</b>                                    | 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         | 7,216    | 7,523      |
| <b>Brasa Holdings, Inc. (8)</b>                                     | Upscale Full Service Restaurants                                   | LIBOR Plus 9.50% (Floor 1.5%), Current Coupon 11.00%, Secured Debt (Maturity - January 20, 2020) (14) | 10,000        | 10,099   | 10,025     |
| <b>Brightwood Capital Fund III, LP (9) (15)</b>                     | Investment Partnership                                             | LP Interests (Brightwood Capital Fund III, LP) (Fully diluted .57%) (16)                              | 1,500         | 1,575    | 1,575      |
| <b>Brundage-Bone Concrete Pumping, Inc.</b>                         | Construction Services Provider                                     | 10.38% Secured Bond (Maturity - September 1, 2021) (14)                                               | 4,000         | 4,046    | 4,140      |
| <b>CAI Software, LLC (10) (13)</b>                                  | Provider of Specialized Enterprise Resource Planning Software      | 12.00% Secured Debt (Maturity Date - October 10, 2019)                                                | 1,350         | 1,313    | 1,313      |
|                                                                     |                                                                    | Member Units (16,339 shares)                                                                          |               | 163      | 163        |
|                                                                     |                                                                    |                                                                                                       |               | 1,476    | 1,476      |
| <b>CJ Holding Company (8) (12)</b>                                  | Oil and Gas Equipment and Services                                 | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity - March 24, 2020)        | 6,000         | 5,160    | 5,383      |
| <b>California Healthcare Medical Billing, Inc. (10) (13)</b>        | Outsourced Billing & Revenue Cycle Management                      | 9.00% Secured Debt, (Maturity - October 17, 2016)                                                     | 742           | 737      | 742        |
| <b>Cedar Bay Generation Company LP (8)</b>                          | Coal-Fired Cogeneration Plant                                      | LIBOR Plus 5.00% (Floor 1.25%), Current Coupon 6.25%, Secured Debt (Maturity - April 23, 2020)        | 1,374         | 1,374    | 1,380      |
| <b>Cengage Learning Acquisitions, Inc. (8)</b>                      | Provider of Educational Print and Digital Services                 | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - March 31, 2020)        | 9,950         | 9,925    | 10,004     |
| <b>Charlotte Russe, Inc. (8) (12)</b>                               | Fast-Fashion Retailer to Young Women                               | LIBOR Plus 5.50% (Floor 1.25%), Current Coupon 6.75%, Secured Debt (Maturity - May 22, 2019)          | 10,700        | 10,611   | 10,471     |
| <b>Clarius BIGS, LLC (11)</b>                                       | Prints & Advertising Film Financing                                | 15.00% PIK Secured Debt (Maturity - January 5, 2015) (18)                                             | 3,297         | 3,039    | 1,385      |
|                                                                     |                                                                    | 20.00% PIK Secured Debt (Maturity - January 5, 2015) (18)                                             | 1,093         | 1,001    | 459        |
|                                                                     |                                                                    |                                                                                                       |               | 4,040    | 1,844      |
| <b>Compuware Corporation (8) (12)</b>                               | Provider of Software and Supporting Services                       | LIBOR Plus 5.25% (Floor 1.00%), Current Coupon 6.25%, Secured Debt (Maturity - December 15, 2019)     | 14,813        | 14,393   | 14,498     |
| <b>Covenant Surgical Partners, Inc.</b>                             | Ambulatory Surgical Centers                                        | 8.75% Secured Debt (Maturity - August 1, 2019)                                                        | 9,500         | 9,500    | 9,548      |
| <b>CRGT, Inc. (8)</b>                                               | Provider of Custom Software Development                            | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - December 18, 2020)     | 11,925        | 11,677   | 11,716     |
| <b>CST Industries, Inc. (8)</b>                                     | Storage Tank Manufacturer                                          | LIBOR Plus 6.25% (Floor 1.50%), Current Coupon 7.75%, Secured Debt (Maturity - May 22, 2017)          | 2,280         | 2,270    | 2,258      |
| <b>Datacom, LLC (10) (13)</b>                                       | Technology and Telecommunications Provider                         | 10.50% Secured Debt (Maturity - May 30, 2019)                                                         | 1,245         | 1,223    | 1,223      |
|                                                                     |                                                                    | Member Units (717 units)                                                                              |               | 670      | 670        |
|                                                                     |                                                                    |                                                                                                       |               | 1,893    | 1,893      |
| <b>Digital River, Inc. (8)</b>                                      | Provider of Outsourced e-Commerce                                  | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - February 12, 2021)     | 13,000        | 12,810   | 12,903     |
| <b>ECP-PF Holdings Group, Inc. (8) (11)</b>                         | Fitness Club Operator                                              | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - November 26, 2019)    | 1,875         | 1,858    | 1,858      |
| <b>East West Copolymer &amp; Rubber, LLC (10) (13)</b>              | Manufacturer of Synthetic Rubbers                                  | 12.00% Secured Debt (Maturity Date - October 17, 2019)                                                | 2,400         | 2,339    | 2,339      |
|                                                                     |                                                                    | Warrants (455,820 equivalent shares)                                                                  |               | 10       | 10         |
|                                                                     |                                                                    |                                                                                                       |               | 2,349    | 2,349      |
| <b>Energy &amp; Exploration Partners, LLC (8) (12)</b>              | Oil & Gas Exploration and Production                               | LIBOR plus 6.75% (Floor 1.00%), Current Coupon 7.75%, Secured Debt (Maturity - January 22, 2019)      | 9,950         | 8,458    | 8,273      |
| <b>Evergreen Skills Lux S.á r.l. (d/b/a Skillsoft) (8) (9) (12)</b> | Technology-Based Performance Support Solutions                     | LIBOR Plus 8.25% (Floor 1.00%), Current Coupon 9.25%, Secured Debt (Maturity - April 28, 2022) (14)   | 10,902        | 10,342   | 10,308     |
| <b>Flavors Holdings, Inc. (8)</b>                                   | 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)         | 8,775         | 8,420    | 8,523      |
| <b>Fram Group Holdings, Inc. (8)</b>                                | Manufacturer of Automotive Maintenance Products                    | LIBOR Plus 5.00% (Floor 1.50%), Current Coupon 6.50%, Secured Debt (Maturity - July 29, 2017)         | 3,370         | 3,360    | 3,368      |
| <b>GST Autoleather, Inc. (8)</b>                                    | Automotive Leather Manufacturer                                    | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity Date - July 10, 2020)    | 9,950         | 9,860    | 9,851      |



| Portfolio Company (1) (3)                     | Business Description                                             | Type of Investment (2) (3)                                                                              | Principal (7) | Cost (7) | Fair Value |
|-----------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------|----------|------------|
| Guerdon Modular Holdings, Inc. (10) (13)      | Mutli-Family and Commercial Modular Construction Company         | 11.00% Secured Debt (Maturity - August 13, 2019)                                                        | 2,800         | 2,748    | 2,754      |
|                                               |                                                                  | Common Stock (42,644 shares)                                                                            |               | 600      | 600        |
|                                               |                                                                  |                                                                                                         |               | 3,348    | 3,354      |
| Guitar Center, Inc.                           | Musical Instruments Retailer                                     | 6.50% Secured Bond (Maturity - April 15, 2019)                                                          | 12,000        | 11,013   | 10,470     |
| Halcon Resources Corporation (9)              | Oil & Gas Exploration & Production                               | 9.75% Unsecured Bond (Maturity - July 15, 2020) (17)                                                    | 3,000         | 2,588    | 2,115      |
| 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)     | 5,850         | 5,744    | 5,865      |
| ICON Health and Fitness, Inc.                 | Producer of Fitness Products                                     | 11.88% Secured Bond (Maturity - October 15, 2016)                                                       | 12,337        | 12,190   | 12,183     |
| 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)             | 5,179         | 5,160    | 4,791      |
| Indivior Finance, LLC (8)                     | Specialty Pharmaceutical Company Treating Opioid Dependence      | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - December 19, 2019)       | 9,875         | 9,279    | 9,381      |
| Inn of the Mountain Gods Resort and Casino    | Hotel & Casino Owner & Operator                                  | 9.25% Secured Bond (Maturity - November 30, 2020)                                                       | 10,749        | 10,528   | 10,024     |
| iPayment, Inc. (8) (12)                       | Provider of Merchant Acquisition                                 | LIBOR Plus 5.25% (Floor 1.50%), Current Coupon 6.75%, Secured Debt (Maturity - May 8, 2017)             | 9,115         | 8,945    | 8,922      |
| 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)           | 5,891         | 5,748    | 5,611      |
| IronGate Energy Services, LLC                 | Oil and Gas Services                                             | 11.00% Secured Bond (Maturity - July 1, 2018)                                                           | 5,825         | 5,829    | 3,845      |
| 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)       | 7,287         | 7,294    | 7,287      |
| Joerns Healthcare, LLC (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)             | 4,445         | 4,423    | 4,410      |
| 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)       | 7,940         | 7,602    | 7,602      |
| Kadmon Pharmaceuticals, LLC (11)              | Biopharmaceutical Company with a Hepatology Focus                | 9.75% Secured Debt (Maturity - December 17, 2016)                                                       | 5,000         | 5,000    | 5,000      |
| Kellermeyer Bergensons Services, LLC (8) (12) | 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)     | 11,700        | 11,566   | 11,700     |
| 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)       | 2,237         | 2,226    | 2,226      |
| 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)          | 11,709        | 10,559   | 10,694     |
| 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)       | 5,349         | 5,332    | 5,296      |
|                                               |                                                                  | LIBOR Plus 8.75% (Floor 1.25%), Current Coupon 10.00%, Secured Debt (Maturity - December 11, 2020) (14) | 500           | 498      | 495        |
|                                               |                                                                  |                                                                                                         |               | 5,830    | 5,791      |
| 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)           | 1,384         | 1,384    | 1,388      |
| MediMedia USA, Inc. (8) (12)                  | Provider of Healthcare Media and Marketing                       | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.00%, Secured Debt (Maturity - November 20, 2018)       | 9,404         | 9,322    | 9,334      |
| 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)        | 6,996         | 6,943    | 7,048      |
| 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)                       | 1,206         | 1,194    | 1,194      |
| 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)             | 12,409        | 12,385   | 12,331     |
| New Media Holdings II LLC (8) (9) (12)        | Local Newspaper Operator                                         | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - June 4, 2020)            | 12,469        | 12,309   | 12,391     |

| Portfolio Company (1) (3)                     | Business Description                                                                            | Type of Investment (2) (3)                                                                              | Principal (7) | Cost (7) | Fair Value |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------|----------|------------|
| 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)           | 7,307         | 7,292    | 7,197      |
| North American Lifting Holdings, Inc. (8)     | Crane Service Provider                                                                          | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt (Maturity - November 27, 2020)       | 997           | 916      | 968        |
| 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)        | 12,423        | 12,411   | 12,291     |
| Novitex Acquisition, LLC (8)                  | Provider of Document Management Services                                                        | LIBOR Plus 6.25% (Floor 1.25%), Current Coupon 7.5%, Secured Debt (Maturity - July 7, 2020)             | 8,955         | 8,807    | 8,530      |
| Panolam Industries International, Inc. (8)    | Decorative Laminate Manufacturer                                                                | LIBOR Plus 6.50% (Floor 1.25%), Current Coupon 7.75%, Secured Debt (Maturity - August 23, 2017)         | 7,733         | 7,693    | 7,695      |
| Paris Presents, Inc. (8)                      | Branded Cosmetic and Bath Accessories                                                           | Prime Plus 7.25% (Floor 3.25%), Current Coupon 10.50%, Secured Debt (Maturity - December 31, 2021) (14) | 7,500         | 7,352    | 7,500      |
| 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         | 6,084    | 6,289      |
| Permian Holdings, Inc.                        | Storage Tank Manufacturer                                                                       | 10.50% Secured Bond (Maturity - January 15, 2018)                                                       | 6,885         | 5,573    | 3,787      |
| 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)                          | Chemical Manufacturer                                                                           | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.5%, Secured Debt (Maturity - February 28, 2020)        | 9,916         | 9,888    | 9,953      |
| 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        | 9,754    | 9,950      |
| 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)           | 5,890         | 5,880    | 5,875      |
| 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)        | 4,950         | 4,973    | 4,554      |
| 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)        | 2,316         | 2,329    | 1,876      |
| Ravago Holdings America, Inc. (8)             | Polymers Distributor                                                                            | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt (Maturity - December 20, 2020)       | 5,940         | 5,978    | 5,970      |
| 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    | 6,589      |
| 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)        | 4,275         | 4,259    | 4,232      |
| 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)                                                  | 5,083         | 5,083    | 5,109      |
|                                               |                                                                                                 |                                                                                                         |               | 8,776    | 8,812      |
| Renaissance Learning, Inc. (8) (12)           | Technology-based K-12 Learning Solutions                                                        | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - April 11, 2022) (14)     | 12,950        | 12,455   | 12,626     |
| 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)         | 3,980         | 3,869    | 3,017      |
| 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)       | 9,825         | 9,563    | 9,563      |
| 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         | 4,952    | 5,000      |
| 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)         | 995           | 987      | 1,000      |
| Sorenson Communications, Inc.                 | Manufacturer of Communication Products for Hearing Impaired                                     | 9.00% Secured Bond (Maturity - October 31, 2020) (14)                                                   | 9,710         | 9,244    | 9,030      |
| 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)          | 3,735         | 3,560    | 3,324      |

| Portfolio Company (1) (3)                                                                             | Business Description                                          | Type of Investment (2) (3)                                                                             | Principal (7) | Cost (7)   | Fair Value |
|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------|------------|------------|
| Stardust Finance Holdings, Inc. (8)                                                                   | Manufacturer of Diversified Building Products                 | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity - March 13, 2022)         | 2,500         | 2,438      | 2,500      |
|                                                                                                       |                                                               | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity - March 13, 2023) (14)   | 5,000         | 4,751      | 4,769      |
|                                                                                                       |                                                               |                                                                                                        |               | 7,189      | 7,269      |
| 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)         | 5,925         | 5,873      | 5,895      |
| 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)        | 2,704         | 2,693      | 2,623      |
| 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         | 3,020      | 3,000      |
| 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         | 2,980      | 2,054      |
| 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)           | 1,028         | 1,034      | 947        |
| 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)        | 988           | 980        | 976        |
| 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         | 1,431      | 1,443      |
| 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         | 4,532      | 4,644      |
| Travel Leaders Group, LLC (8)                                                                         | Travel Agency Network Provider                                | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - December 5, 2018)       | 8,320         | 8,291      | 8,340      |
| 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)         | 7,927         | 7,906      | 7,907      |
| Vantage Oncology, LLC                                                                                 | Outpatient Radiation Oncology Treatment Centers               | 9.50% Secured Bond (Maturity - June 15, 2017)                                                          | 12,507        | 12,092     | 12,069     |
| 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)          | 1,358         | 1,361      | 1,355      |
|                                                                                                       |                                                               | LIBOR Plus 8.00% (Floor 1.50%), Current Coupon 9.50%, Secured Debt (Maturity - July 23, 2017) (14)     | 875           | 870        | 871        |
|                                                                                                       |                                                               |                                                                                                        |               | 2,231      | 2,226      |
| Volusion, LLC (10) (13)                                                                               | Provider of Online Software-as-a-Service eCommerce Solutions  | 10.50% Secured Debt (Maturity Date - January 24, 2020)                                                 | 7,500         | 6,784      | 6,784      |
|                                                                                                       |                                                               | Member Units (2,090,001 shares)                                                                        |               | 6,000      | 6,000      |
|                                                                                                       |                                                               | Warrants (407,408 equivalent shares)                                                                   |               | 600        | 600        |
|                                                                                                       |                                                               |                                                                                                        |               | 13,384     | 13,384     |
| 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)       | 6,484         | 6,423      | 6,516      |
| 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)           | 2,735         | 2,746      | 2,778      |
| Subtotal Non-Control/Non-Affiliate Investments (5) (96% of total portfolio investments at fair value) |                                                               |                                                                                                        |               | \$ 646,600 | \$ 635,767 |
| Total Investments                                                                                     |                                                               |                                                                                                        |               | \$ 669,766 | \$ 659,866 |

(1) All investments are Middle Market portfolio investments, unless otherwise noted. All of the Company's assets are encumbered as security for the Company's credit agreements. See Note 4 - *Borrowings*.

(2) Debt investments are income producing, unless otherwise noted. Equity 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. As of March 31, 2015, approximately 8.7% of the Company's investments were considered non-qualifying.

(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 March 31, 2015. Settlement occurred or is scheduled to occur after March 31, 2015. 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.

(18) Investment is on non-accrual status as of March 31, 2015.

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Condensed 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       |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------|------------------|------------------|
| <b>Control Investments (6)</b>                                                    |                                                                       |                                                                                                        |               |                  |                  |
| <b>GRT Rubber Technologies, LLC (8) (10) (13)</b>                                 | 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           |
| <b>Subtotal Control Investments (6) (3% of total investments at fair value)</b>   |                                                                       |                                                                                                        |               | <b>\$ 14,521</b> | <b>\$ 14,521</b> |
| <b>Affiliate Investments (4)</b>                                                  |                                                                       |                                                                                                        |               |                  |                  |
| <b>AFG Capital Group, LLC (10) (13)</b>                                           | 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            |
| <b>Mystic Logistics, Inc. (10) (13)</b>                                           | 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            |
| <b>SoftTouch Medical Holdings LLC (8) (10) (13)</b>                               | 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            |
| <b>Subtotal Affiliate Investments (4) (2% of total investments at fair value)</b> |                                                                       |                                                                                                        |               | <b>\$ 7,420</b>  | <b>\$ 7,424</b>  |
| <b>Non-Control/Non-Affiliate Investments (5)</b>                                  |                                                                       |                                                                                                        |               |                  |                  |
| <b>Ability Network Inc. (8)</b>                                                   | 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         |
| <b>Accuvant Finance LLC (8)</b>                                                   | 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            |
| <b>Allflex Holdings III Inc. (8)</b>                                              | 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            |
| <b>AmeriTech College Operations, LLC (10) (13)</b>                                | For-Profit Nursing and Healthcare College                             | 10.00% Secured Debt, (Maturity - January 31, 2020)                                                     | 871           | 870              | 870              |
| <b>AMF Bowling Centers, Inc. (8)</b>                                              | 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            |
| <b>Aptean, Inc. (8)</b>                                                           | 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            |
| <b>Artel, LLC (8)</b>                                                             | 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              |
| <b>Bioventus, LLC (8) (11)</b>                                                    | 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            |
| <b>Blackbrush Oil and Gas LP (8) (12)</b>                                         | 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            |
| <b>Blackhawk Specialty Tools LLC (8)</b>                                          | 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            |
| <b>Blue Bird Body Company (8)</b>                                                 | 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            |
| <b>Bluestem Brands, Inc. (8)</b>                                                  | 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            |
| <b>Brasa Holdings, Inc. (8) (12)</b>                                              | 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            |

| Portfolio Company (1) (3)                             | Business Description                                               | Type of Investment (2) (3)                                                                         | Principal (7) | Cost (7) | Fair Value |
|-------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|---------------|----------|------------|
| 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 - October 10, 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) (18)                                          | 3,297         | 3,039    | 1,385      |
|                                                       |                                                                    | 20.00% PIK Secured Debt (Maturity - January 5, 2015) (18)                                          | 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)           | Manufacturer 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)              | Multi-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      |



| Portfolio Company (1) (3)                     | Business Description                                       | Type of Investment (2) (3)                                                                              | Principal (7) | Cost (7) | Fair Value |
|-----------------------------------------------|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------|----------|------------|
| 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      |

| Portfolio Company (1) (3)                       | Business Description                                                                            | Type of Investment (2) (3)                                                                             | Principal (7) | Cost (7) | Fair Value |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------|----------|------------|
| <b>Pike Corporation (8)</b>                     | 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      |
| <b>Polyconcept Financial B.V. (8)</b>           | 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      |
| <b>Premier Dental Services, Inc. (8)</b>        | 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      |
| <b>Prowler Acquisition Corporation (8)</b>      | 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      |
| <b>Quad-C JH Holdings (8)</b>                   | 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      |
| <b>Ravago Holdings America, Inc. (8)</b>        | 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      |
| <b>RCHP, Inc. (8)</b>                           | 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      |
| <b>Recorded Books, Inc. (8)</b>                 | 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      |
| <b>Relativity Media, LLC (11)</b>               | 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      |
| <b>Renaissance Learning, Inc. (8)</b>           | 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      |
| <b>RGL Reservoir Operations, Inc. (8) (9)</b>   | 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      |
| <b>RLJ Entertainment, Inc. (8) (11)</b>         | 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      |
| <b>Sage Automotive Interiors, Inc (8)</b>       | 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      |
| <b>SCE Partners, LLC (8) (11)</b>               | Hotel & Casino Operator                                                                         | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity - August 14, 2019)        | 998           | 989      | 1,002      |
| <b>Sorenson Communications, Inc.</b>            | Manufacturer of Communication Products for Hearing Impaired                                     | 9.00% Secured Bond (Maturity - October 31, 2020) (14)                                                  | 5,000         | 4,756    | 4,650      |
| <b>Sotera Defense Solutions, Inc. (8)</b>       | 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      |
| <b>Symphony Teleca Services, Inc. (8)</b>       | 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      |
| <b>Synagro Infrastructure Company, Inc. (8)</b> | 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      |
| <b>Teleguam Holdings, LLC (8)</b>               | 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      |
| <b>Templar Energy, LLC (8)</b>                  | 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      |
| <b>Tervita Corporation (8) (9)</b>              | 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      |
| <b>The Topps Company, Inc. (8)</b>              | Trading Cards & Confectionary                                                                   | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - October 2, 2018)        | 990           | 982      | 965        |
| <b>Therakos, Inc. (8)</b>                       | 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      |
| <b>TOMS Shoes, LLC (8)</b>                      | 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      |



| Portfolio Company (1) (3)                                                                                    | Business Description                                  | Type of Investment (2) (3)                                                                         | Principal (7) | Cost (7)          | Fair Value        |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------------------|---------------|-------------------|-------------------|
| 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             |
| <b>Subtotal Non-Control/Non-Affiliate Investments (5) (95% of total portfolio investments at fair value)</b> |                                                       |                                                                                                    |               | <b>\$ 465,663</b> | <b>\$ 451,917</b> |
| <b>Total Investments</b>                                                                                     |                                                       |                                                                                                    |               | <b>\$ 487,604</b> | <b>\$ 473,862</b> |

- (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 4 - *Borrowings*.
- (2) Debt investments are income producing, unless otherwise noted. Equity 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.
- (18) Investment is on non-accrual status as of December 31, 2014.

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**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 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. 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 (“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 (“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 (“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.

As of March 31, 2015, the Company had raised approximately \$394.1 million in the Offering, including proceeds from the distribution reinvestment plan of approximately \$7.9 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”). The Company and the Adviser have retained MSC Adviser I, LLC, a wholly owned subsidiary of Main Street, a New York Stock Exchange listed BDC, as the Company’s investment sub-adviser (the “Sub-Adviser”) 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. The Adviser and Sub-Adviser are collectively referred to herein as the “Advisers,” and each is registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). 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 financial statements of the Company are prepared in accordance with the instructions to Form 10-Q and accounting principles generally accepted in the United States of America (“GAAP”). The unaudited condensed consolidated financial statements reflect all normal recurring adjustments, which are, in the opinion of management, necessary for the fair presentation of the Company’s results for the interim periods presented. The results of operations for interim periods are not indicative of results to be expected for the full year.

Amounts as of December 31, 2014 included in the unaudited condensed consolidated financial statements have been derived from the Company’s audited consolidated financial statements as of that date. Certain financial information that is normally included in annual financial statements, including certain financial statement footnotes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted herein. These financial statements should be read in conjunction with the Company’s financial statements and notes related thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 4, 2015. The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

### *Interest, Fee and Dividend Income*

Interest and dividend 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. Dividend income is recorded when dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Accrued interest and dividend income is evaluated quarterly 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 March 31, 2015 and December 31, 2014, the Company did not have any investments that were more than 90 days past due. The Company's two investments in one portfolio company, Clarius BIGS, LLC, were on non-accrual status as of March 31, 2015 and December 31, 2014. Given the credit deterioration, no interest income has been recognized on these investments during the three months ended March 31, 2015. Aside from the two investments on non-accrual status as of March 31, 2015, 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 March 31, 2015 and December 31, 2014, the Company held five and four investments, respectively, which contained a PIK provision. As discussed above, two of the five investments with PIK provisions, as of March 31, 2015, were on non-accrual status and no PIK income was recorded on these investments during the three months ended March 31, 2015. For the three months ended March 31, 2015 and 2014, the Company capitalized \$194,000 and \$0, respectively, of PIK interest income.

The Company may periodically provide services, including structuring and advisory services, to its portfolio companies or other third parties. The income from such services is non-recurring. For services that are separately identifiable and evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment or other applicable transaction closes. Fees received in connection with debt financing transactions for services that do not meet these criteria are treated as debt origination fees and are deferred and accreted into interest income over the life of the financing.

A presentation of the investment income the Company received from its Investment Portfolio in each of the periods presented (in thousands) is as follows:

|                                         | Three Months Ended |                |
|-----------------------------------------|--------------------|----------------|
|                                         | March 31, 2015     | March 31, 2014 |
|                                         | (Unaudited)        |                |
| Interest, Fee and Dividend Income       |                    |                |
| Interest Income                         | \$ 11,608          | \$ 1,661       |
| Fee Income                              | 46                 | —              |
| Dividend Income                         | 139                | —              |
| Total Interest, Fee and Dividend Income | \$ 11,793          | \$ 1,661       |

### *Recent Accounting Pronouncements*

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 FASB tentatively decided to defer the effective date of the new revenue standard for public entities under US GAAP for one year. If finalized, the new guidance will be effective for the annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. Early adoption would be permitted for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact the adoption of this new accounting standard will have on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation: Amendments to the Consolidation Analysis* which amends the consolidation requirements under ASC 810. This guidance amends the criteria for determining which entities are considered variable interest entities ("VIEs") and amends the criteria for determining if a service provider possesses a variable interest in a VIE. ASU No. 2015-02 also eliminates the deferral under ASU 2010-10 for application of the VIE consolidation model that was granted for investments in certain investment companies. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact that ASU 2015-02 will have on its consolidated financial statements and disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* which amends the required presentation of debt issuance costs on the balance sheet. The guidance now requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the ASU No. 2015-03. For public business entities, the guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company will make the required changes to the debt presentation on the balance sheet as of the effective date of this new guidance.

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

#### *Fair Value Hierarchy*

ASC 820 establishes a hierarchical 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.

As of March 31, 2015 and December 31, 2014, the Company's investment portfolio was comprised of debt securities, equity investments, and other portfolio investments. The fair value determination for these investments primarily consisted of unobservable (Level 3) inputs.

As of March 31, 2015 and December 31, 2014, all of the Company's lower middle market ("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 March 31, 2015 and December 31, 2014.

As of March 31, 2015 and December 31, 2014, 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 (1) observable inputs in non-active markets for which sufficient observable inputs were available to determine the fair value of these investments, (2) observable inputs in the non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and (3) unobservable inputs. As a result, all of the Company's Middle Market portfolio investments were categorized as Level 3 as of March 31, 2015 and December 31, 2014.

As of March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014.

As of March 31, 2015 and December 31, 2014, the Company's Other Portfolio investment consisted of an illiquid security issued by a private company. The fair value determination for this investment primarily consisted of unobservable inputs. As a result, the Company's Other Portfolio equity investment was categorized as Level 3 as of March 31, 2015 and December 31, 2014.

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 of March 31, 2015 according to the fair value hierarchy (in thousands):

|                                      | Fair Value Measurements |         |            |            |
|--------------------------------------|-------------------------|---------|------------|------------|
|                                      | Level 1                 | Level 2 | Level 3    | Total      |
| First lien secured debt investments  | \$ —                    | \$ —    | \$ 503,686 | \$ 503,686 |
| Second lien secured debt investments | —                       | —       | 135,122    | 135,122    |
| Equity investments                   | —                       | —       | 18,943     | 18,943     |
| Unsecured debt investments           | —                       | —       | 2,115      | 2,115      |
| Total                                | \$ —                    | \$ —    | \$ 659,866 | \$ 659,866 |

The following table presents fair value measurements of the Company's investments, by major class, as of December 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 investment classification, segregated by the level within the fair value hierarchy as of March 31, 2015 (in thousands):

|                             | Fair Value Measurements |         |            |            |
|-----------------------------|-------------------------|---------|------------|------------|
|                             | Level 1                 | Level 2 | Level 3    | Total      |
| LMM portfolio investments   | \$ —                    | \$ —    | \$ 49,100  | \$ 49,100  |
| Private Loan investments    | —                       | —       | 58,695     | 58,695     |
| Middle Market investments   | —                       | —       | 550,496    | 550,496    |
| Other Portfolio investments | —                       | —       | 1,575      | 1,575      |
| Total                       | \$ —                    | \$ —    | \$ 659,866 | \$ 659,866 |

The following table presents fair value measurements of the Company's investments, by investment classification, segregated by the level within the fair value hierarchy as of December 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     |
| Middle Market investments   | —                       | —       | 391,016    | 391,016    |
| Other Portfolio investments | —                       | —       | 1,575      | 1,575      |
| Total                       | \$ —                    | \$ —    | \$ 473,862 | \$ 473,862 |

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-Basis of Presentation and Summary of Significant Accounting Policies-Valuation of Portfolio Investments in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 4, 2015) 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 March 31, 2015 (in thousands):

|                                  | Fair Value        | Valuation Technique              | Significant Unobservable Input   | Range         | Weighted Average <sup>(2)</sup> |
|----------------------------------|-------------------|----------------------------------|----------------------------------|---------------|---------------------------------|
| LMM equity portfolio investments | \$ 17,268         | Discounted Cash Flows            | Weighted Average Cost of Capital | 12% - 14%     | 13.4%                           |
|                                  |                   | Market Approach/Enterprise Value | EBITDA Multiples (1)             | 4.6x - 16.1x  | 10.1x                           |
|                                  |                   |                                  | Net Book Value Multiple          | N/A           | 1.75x                           |
| LMM debt portfolio investments   | \$ 31,832         | Discounted Cash Flows            | Expected Principal Recovery      | N/A           | 100.0%                          |
|                                  |                   |                                  | Risk Adjusted Discount Factor    | 10% - 12%     | 10.8%                           |
| Private Loan debt investments    | \$ 31,828         | Market Approach                  | Third Party Quotes               | 100% - 100.5% | 100.2%                          |
| Private Loan debt investments    | \$ 26,767         | Discounted Cash Flows            | Expected Principal Recovery      | 42% - 100%    | 96.0%                           |
|                                  |                   |                                  | Risk Adjusted Discount Factor    | 5% - 14%      | 8.0%                            |
| Private Loan equity investments  | \$ 100            | Market Approach/Enterprise Value | EBITDA Multiples (1)             | N/A           | 1.7x                            |
| Middle Market debt investments   | \$ 550,496        | Market Approach                  | Third Party Quotes               | 55% - 103.5%  | 96.6%                           |
| Other Portfolio investments      | \$ 1,575          | Market Approach                  | Net Asset Value                  | N/A           | N/A                             |
|                                  | <u>\$ 659,866</u> |                                  |                                  |               |                                 |

(1) EBITDA may include pro forma 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, 2014 (in thousands):

|                                  | Fair Value        | Valuation Technique              | Significant Unobservable Input   | Range       | Weighted Average <sup>(2)</sup> |
|----------------------------------|-------------------|----------------------------------|----------------------------------|-------------|---------------------------------|
| LMM equity portfolio 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 Rate      | 10% - 12%   | 11.0%                           |
| Private Loan debt investments    | \$ 26,713         | Market Approach                  | Third Party Quotes               | 100% - 102% | 100.5%                          |
| Private Loan debt investments    | \$ 20,942         | Discounted Cash Flows            | Expected Principal Recovery      | 42% - 100%  | 95.0%                           |
|                                  |                   |                                  | Risk Adjusted Discount Factor    | 5% - 10%    | 7.5%                            |
| Middle Market debt 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                             |
|                                  | <u>\$ 473,862</u> |                                  |                                  |             |                                 |

(1) EBITDA may include pro forma 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 provides a summary of changes in fair value of the Company's Level 3 portfolio investments for the three months ended March 31, 2015 (in thousands):

| Type of Investment  | January 1, 2015 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) | March 31, 2015 Fair Value |
|---------------------|----------------------------|----------------------------------|----------------------------------|---------------------|--------------------|--------------------------------------------|--------------------------|---------------------------|
| LMM Equity          | \$ 9,808                   | \$ —                             | \$ —                             | \$ 6,600            | \$ —               | \$ 860                                     | \$ —                     | \$ 17,268                 |
| LMM Debt            | 23,808                     | —                                | 6                                | 8,221               | (240)              | 67                                         | (30)                     | 31,832                    |
| Private Loan Equity | —                          | —                                | —                                | 100                 | —                  | —                                          | —                        | 100                       |
| Private Loan Debt   | 47,655                     | —                                | 188                              | 10,943              | (126)              | (65)                                       | —                        | 58,595                    |
| Middle Market       | 391,016                    | —                                | —                                | 180,203             | (23,751)           | 2,978                                      | 50                       | 550,496                   |
| Other Portfolio     | 1,575                      | —                                | —                                | —                   | —                  | —                                          | —                        | 1,575                     |
| Total               | <u>\$ 473,862</u>          | <u>\$ —</u>                      | <u>\$ 194</u>                    | <u>\$ 206,067</u>   | <u>\$ (24,117)</u> | <u>\$ 3,840</u>                            | <u>\$ 20</u>             | <u>\$ 659,866</u>         |

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

The following table provides a summary of changes in fair value of the Company's Level 3 portfolio investments for the three months ended March 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) | March 31, 2014 Fair Value |
|--------------------|----------------------------|----------------------------------|----------------------------------|---------------------|--------------------|--------------------------------------------|--------------------------|---------------------------|
| LMM Equity         | \$ —                       | \$ —                             | \$ —                             | \$ —                | \$ —               | \$ —                                       | \$ —                     | \$ —                      |
| LMM Debt           | 1,500                      | —                                | —                                | —                   | —                  | —                                          | —                        | 1,500                     |
| Private Loan Debt  | 2,906                      | —                                | —                                | 2,717               | —                  | 15                                         | —                        | 5,638                     |
| Middle Market      | 57,748                     | 4,728                            | —                                | 87,274              | (15,952)           | 213                                        | 69                       | 134,080                   |
| Other Portfolio    | —                          | —                                | —                                | —                   | —                  | —                                          | —                        | —                         |
| Total              | <u>\$ 62,154</u>           | <u>\$ 4,728</u>                  | <u>\$ —</u>                      | <u>\$ 89,991</u>    | <u>\$ (15,952)</u> | <u>\$ 228</u>                              | <u>\$ 69</u>             | <u>\$ 141,218</u>         |

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

For the three months ended March 31, 2015 and 2014, there were transfers of zero and \$4.7 million, respectively, between Level 2 and Level 3 portfolio investments. The transfers represent Middle Market 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 March 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 March 31, 2014.

### Portfolio Investment Composition

The composition of the Company's investments as of March 31, 2015, at cost and fair value, was as follows (in thousands):

|                                      | <b>Investments<br/>at Cost</b> | <b>Cost Percentage<br/>of Total Portfolio</b> | <b>Investments<br/>at Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|--------------------------------------|--------------------------------|-----------------------------------------------|--------------------------------------|---------------------------------------------------------|
| First lien secured debt investments  | \$ 511,959                     | 76.4%                                         | \$ 503,686                           | 76.3%                                                   |
| Second lien secured debt investments | 137,136                        | 20.5%                                         | 135,122                              | 20.5%                                                   |
| Equity investments                   | 17,408                         | 2.6%                                          | 18,268                               | 2.8%                                                    |
| Unsecured debt investments           | 2,588                          | 0.4%                                          | 2,115                                | 0.3%                                                    |
| Equity warrants                      | 675                            | 0.1%                                          | 675                                  | 0.1%                                                    |
| Total                                | <u>\$ 669,766</u>              | <u>100.0%</u>                                 | <u>\$ 659,866</u>                    | <u>100.0%</u>                                           |

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

|                                      | <b>Investments<br/>at Cost</b> | <b>Cost Percentage<br/>of Total Portfolio</b> | <b>Investments<br/>at Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|--------------------------------------|--------------------------------|-----------------------------------------------|--------------------------------------|---------------------------------------------------------|
| 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                                | <u>\$ 487,604</u>              | <u>100.0%</u>                                 | <u>\$ 473,862</u>                    | <u>100.0%</u>                                           |

The composition of the Company's investments by geographic region of the United States as of March 31, 2015, 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):

|                   | <b>Investments<br/>at Cost</b> | <b>Cost Percentage<br/>of Total Portfolio</b> | <b>Investments<br/>at Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|-------------------|--------------------------------|-----------------------------------------------|--------------------------------------|---------------------------------------------------------|
| Northeast         | \$ 164,872                     | 24.7%                                         | \$ 165,580                           | 25.2%                                                   |
| Southeast         | 134,516                        | 20.1%                                         | 134,833                              | 20.5%                                                   |
| West              | 109,301                        | 16.4%                                         | 106,161                              | 16.1%                                                   |
| Southwest         | 132,499                        | 19.8%                                         | 124,672                              | 18.9%                                                   |
| Midwest           | 98,557                         | 14.7%                                         | 99,619                               | 15.1%                                                   |
| Non-United States | 28,446                         | 4.3%                                          | 27,426                               | 4.2%                                                    |
| Total             | <u>\$ 668,191</u>              | <u>100.0%</u>                                 | <u>\$ 658,291</u>                    | <u>100.0%</u>                                           |

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):

|                   | <b>Investments<br/>at Cost</b> | <b>Cost Percentage<br/>of Total Portfolio</b> | <b>Investments<br/>at Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|-------------------|--------------------------------|-----------------------------------------------|--------------------------------------|---------------------------------------------------------|
| 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             | <u>\$ 486,029</u>              | <u>100.0%</u>                                 | <u>\$ 472,287</u>                    | <u>100.0%</u>                                           |

The composition of the Company's total investments by industry as of March 31, 2015 and December 31, 2014, 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     |                   |
|------------------------------------------------|----------------|-------------------|----------------|-------------------|
|                                                | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Media                                          | 8.1%           | 9.4%              | 7.9%           | 9.2%              |
| IT Services                                    | 6.8%           | 7.1%              | 6.8%           | 7.1%              |
| Diversified Consumer Services                  | 6.3%           | 4.5%              | 6.4%           | 4.6%              |
| Hotels, Restaurants, and Leisure               | 6.3%           | 7.5%              | 6.3%           | 7.6%              |
| Oil, Gas, and Consumable Fuels                 | 6.3%           | 5.6%              | 5.6%           | 4.7%              |
| Internet Software and Services                 | 5.1%           | 2.9%              | 5.2%           | 3.0%              |
| Health Care Providers and Services             | 5.1%           | 3.7%              | 5.1%           | 3.8%              |
| Food Products                                  | 4.1%           | 5.1%              | 4.2%           | 5.1%              |
| Pharmaceuticals                                | 3.7%           | 2.1%              | 3.8%           | 2.2%              |
| Specialty Retail                               | 3.2%           | 2.5%              | 3.2%           | 2.4%              |
| Software                                       | 3.0%           | 3.7%              | 3.0%           | 3.8%              |
| Construction and Engineering                   | 2.6%           | 3.5%              | 2.6%           | 3.7%              |
| Chemicals                                      | 2.7%           | 3.0%              | 2.8%           | 3.1%              |
| Auto Components                                | 2.7%           | 3.8%              | 2.8%           | 3.9%              |
| Leisure Equipment and Products                 | 2.6%           | 1.6%              | 2.7%           | 1.6%              |
| Energy Equipment and Services                  | 2.9%           | 3.3%              | 2.5%           | 2.7%              |
| Machinery                                      | 2.3%           | 3.0%              | 2.4%           | 3.1%              |
| Commercial Services and Supplies               | 2.1%           | 2.3%              | 2.2%           | 2.3%              |
| Tobacco                                        | 1.9%           | 1.7%              | 1.9%           | 1.8%              |
| Electronic Equipment, Instruments & Components | 1.8%           | 2.6%              | 1.9%           | 2.7%              |
| Diversified Telecommunication Services         | 1.7%           | 1.4%              | 1.7%           | 1.4%              |
| Textiles, Apparel, & Luxury Goods              | 1.6%           | 2.1%              | 1.6%           | 2.2%              |
| Aerospace and Defense                          | 1.5%           | 1.4%              | 1.5%           | 1.4%              |
| Diversified Financial Services                 | 1.3%           | —%                | 1.4%           | —%                |
| Metals and Mining                              | 1.2%           | 1.6%              | 1.2%           | 1.6%              |
| Marine                                         | 1.2%           | 1.6%              | 1.2%           | 1.7%              |
| Distributors                                   | 1.1%           | 1.6%              | 1.2%           | 1.6%              |
| Building Products                              | 1.1%           | —%                | 1.1%           | —%                |
| Household Products                             | 1.1%           | 1.6%              | 1.1%           | 1.6%              |
| Internet and Catalog Retail                    | 1.1%           | 1.5%              | 1.1%           | 1.5%              |
| Personal Products                              | 1.1%           | —%                | 1.1%           | —%                |
| Health Care Equipment and Supplies             | 1.0%           | 1.4%              | 1.0%           | 1.4%              |
| Insurance                                      | 1.0%           | 1.3%              | 1.0%           | 1.4%              |
| Automobiles                                    | 0.9%           | 1.2%              | 0.9%           | 1.3%              |
| Professional Services                          | 0.9%           | 1.2%              | 0.8%           | 1.2%              |
| Healthcare Technology                          | 0.7%           | 1.0%              | 0.8%           | 1.0%              |
| Air Freight & Logistics                        | 0.5%           | 0.6%              | 0.6%           | 0.7%              |
| Containers and Packaging                       | 0.3%           | 0.5%              | 0.3%           | 0.5%              |
| Consumer Finance                               | 0.5%           | 0.5%              | 0.5%           | 0.5%              |
| Life Sciences Tools and Services               | 0.2%           | 0.3%              | 0.2%           | 0.3%              |
| Electric Utilities                             | 0.2%           | 0.3%              | 0.2%           | 0.3%              |
| Airlines                                       | 0.2%           | —%                | 0.2%           | —%                |
| Total                                          | 100.0%         | 100.0%            | 100.0%         | 100.0%            |

#### Note 4 — Borrowings

As of March 31, 2015, the Company had fully drawn the borrowing capacity of a \$105.0 million senior secured revolving credit facility (the "Syndicated Credit Facility") with Capital One, National Association ("Capital One"), as the administrative agent, and with Capital One and other financial institutions as lenders. Additionally, as of March 31, 2015 the Company's wholly-owned Structured Subsidiary, HMS Funding I LLC, a Delaware limited liability company ("HMS Funding") had borrowings of \$159.0 million outstanding on a \$200.0 million credit agreement (the "HMS Funding Facility") among HMS Funding, as borrower, the Company, as equityholder and servicer, Deutsche Bank AG, New York Branch ("Deutsche Bank"), as administrative agent and, with other financial institutions, as lenders, and U.S. Bank National Association, as collateral agent and collateral custodian. The Company estimated that the outstanding borrowings approximated fair value.

#### Note 5 – Financial Highlights

The following is a schedule of financial highlights of the Company for the three months ended March 31, 2015 and the three months ended March 31, 2014.

| Per Share Data:                                                                       | Three Months Ended<br>March 31, 2015 | Three Months Ended<br>March 31, 2014 |
|---------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Net asset value at beginning of period</b>                                         | \$ 8.40                              | \$ 8.91                              |
| Net realized income (1) (2)                                                           | 0.18                                 | 0.12                                 |
| Net unrealized appreciation (depreciation) (1) (2)                                    | 0.10                                 | 0.03                                 |
| Net increase (decrease) in net assets resulting from operations                       | 0.28                                 | 0.15                                 |
| Stockholder distributions (1) (3)                                                     | (0.17)                               | (0.17)                               |
| Issuance of common stock above (below) net asset value (4), net of offering costs (1) | 0.06                                 | (0.03)                               |
| Other (5)                                                                             | —                                    | —                                    |
| <b>Net asset value at end of the period</b>                                           | <u>\$ 8.57</u>                       | <u>\$ 8.86</u>                       |
| Shares outstanding at end of period                                                   | 41,153,325                           | 9,373,983                            |
| Weighted average shares outstanding                                                   | 36,265,941                           | 7,388,639                            |

- (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.

|                                                                                | <b>Three Months Ended<br/>March 31, 2015</b> | <b>Three Months Ended<br/>March 31, 2014</b> |
|--------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
|                                                                                | (in thousands, except percentages)           |                                              |
| Net asset value at end of period                                               | \$ 352,480                                   | \$ 83,080                                    |
| Average net assets                                                             | \$ 306,272                                   | \$ 65,579                                    |
| Average Credit Facility borrowings                                             | \$ 223,432                                   | \$ 20,750                                    |
| Ratios to average net assets:                                                  |                                              |                                              |
| Ratio of total expenses to average net assets (1)                              | 1.78%                                        | 1.28%                                        |
| Ratio of total expenses, excluding interest expense, to average net assets (1) | 1.14%                                        | 0.97%                                        |
| Ratio of net investment income to average net assets                           | 2.07%                                        | 1.26%                                        |
| Portfolio turnover ratio                                                       | 4.25%                                        | 15.33%                                       |
| Total return (2)                                                               | 4.05%                                        | 1.35%                                        |

- (1) For the three months ended March 31, 2015 and the three months ended March 31, 2014, the Advisers waived base management fees of \$0 and \$303,000, respectively, subordinated incentive fees of \$358,000 and \$0, respectively, capital gains incentive fees of \$0 and \$0, respectively, administrative services expenses of \$437,000 and \$329,000, respectively, and made an expense support payment to the Company of \$0 and \$0, respectively. 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 three months ended March 31, 2015 (in thousands except per share amounts).

| <b>For the Period Ended</b>       | <b>Distributions</b> |               |
|-----------------------------------|----------------------|---------------|
|                                   | <b>Per Share</b>     | <b>Amount</b> |
| Three months ended March 31, 2015 | \$ 0.17              | \$ 6,260      |

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

| <b>For the Period Ended</b>       | <b>Distributions</b> |               |
|-----------------------------------|----------------------|---------------|
|                                   | <b>Per Share</b>     | <b>Amount</b> |
| Three months ended March 31, 2014 | \$ 0.17              | \$ 1,276      |

On March 24, 2015, with the authorization of the Company's board of directors, the Company declared distributions to its stockholders for the period of April 2015 through June 2015. These distributions have been, or will be, calculated based on stockholders of record each day from April 1, 2015 through June 30, 2015 in an amount equal to \$0.00191781 per share, per day. Distributions are paid on the first business day following the completion of each month to which they relate.

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 three months ended March 31, 2015 and March 31, 2014.

|                                                                                                                                    | Three Months Ended<br>March 31, 2015 |            | Three Months Ended<br>March 31, 2014 |            |
|------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------|--------------------------------------|------------|
|                                                                                                                                    | (in thousands, except percentages)   |            |                                      |            |
| Source of Distribution                                                                                                             | Distribution<br>Amount               | Percentage | Distribution<br>Amount               | Percentage |
| Net realized income from operations (net of waiver of base management and incentive fees and expense support payment from Adviser) | \$ 5,989                             | 96%        | \$ 590                               | 46%        |
| Waiver of base management and incentive fees                                                                                       | 271                                  | 4%         | 303                                  | 24%        |
| Other sources                                                                                                                      | —                                    | —%         | 383                                  | 30%        |
| Total                                                                                                                              | \$ 6,260                             | 100%       | \$ 1,276                             | 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. See Note 9 - *Related Party Transactions and Arrangements - Advisory Agreements and Conditional Fee Waiver*.

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 applicable year. 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.

The Company has formed a wholly owned subsidiary, HMS Equity Holding, LLC, which has 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.

Listed below is a reconciliation of "Net increase in net assets resulting from operations" to taxable income and to total distributions declared to common stockholders for the three months ended March 31, 2015 and 2014 (in thousands).

|                                                                                                                                          | <b>Three Months Ended<br/>March 31, 2015</b> | <b>Three Months Ended<br/>March 31, 2014</b> |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| Net increase in net assets resulting from operations                                                                                     | \$ 10,187                                    | \$ 1,122                                     |
| Net change in unrealized appreciation                                                                                                    | (3,840)                                      | (228)                                        |
| Income tax provision                                                                                                                     | 6                                            | (4)                                          |
| Pre-tax book (income) loss not consolidated for tax purposes                                                                             | 10                                           | —                                            |
| Book income and tax income differences, including debt origination, structuring fees, dividends, realized gains and changes in estimates | (136)                                        | —                                            |
| Estimated taxable income <sup>(1)</sup>                                                                                                  | 6,227                                        | 890                                          |
| Taxable income earned in prior year and carried forward for distribution in current year                                                 | 143                                          | 8                                            |
| Taxable income earned prior to period end and carried forward for distribution next period                                               | (2,463)                                      | (143)                                        |
| Dividend accrued as of period end and paid in the following period                                                                       | 2,353                                        | 521                                          |
| Total distributions accrued or paid to common stockholders                                                                               | <u>\$ 6,260</u>                              | <u>\$ 1,276</u>                              |

- (1) The Company's taxable income for each period is an estimate and will not be finally determined until the company files its tax return for each year. Therefore, the final taxable income, and the taxable income earned in each period and carried forward for distribution in the following period, may be different than this estimate.

The income tax expense, or benefit, and the related tax assets and liabilities generated by the Taxable Subsidiary, if any, are reflected in the Company's Consolidated Statement of Operations. For the three months ended March 31, 2015 and 2014, the Company recognized a net income tax provision of \$6,000 and \$(4,000), respectively, related to deferred taxes of \$3,000 and \$0 respectively, and other taxes of \$3,000 and \$(4,000), respectively. For the three months ended March 31, 2015 and 2014, the other taxes include \$0 and \$1,000, respectively, related to an accrual for excise tax on the Company's estimated spillover taxable income and \$3,000 and \$(5,000), respectively, related to accruals for state and other taxes.

The net deferred tax asset at March 31, 2014 and December 31, 2013 was \$1,000 and \$0, respectively, primarily related to basis differences of portfolio investments held by the Taxable Subsidiary which are "pass through" entities for tax purposes and \$0 net loss carryforwards from historical realized losses on portfolio investments held by the Taxable Subsidiary,

Ordinary distributions from a RIC do not qualify for the reduced 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. Therefore, a determination made on an interim basis may not be representative of the actual tax attributes of distributions for a 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 three months ended March 31, 2015 and March 31, 2014 (in thousands):

| <b>Supplemental Disclosure of Cash Flow Information</b>     | <b>Three Months Ended<br/>March 31, 2015</b> | <b>Three Months Ended<br/>March 31, 2014</b> |
|-------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| Cash paid for interest                                      | \$ 1,749                                     | \$ 173                                       |
| Cash paid for income taxes                                  | \$ 9                                         | \$ 1                                         |
| <b>Supplemental Disclosure of Non-Cash Flow Information</b> |                                              |                                              |
| Stockholder distributions declared and unpaid               | \$ 2,353                                     | \$ 521                                       |
| Stockholder distributions reinvested                        | \$ 2,884                                     | \$ 419                                       |
| Change in unpaid deferred offering costs                    | \$ 921                                       | \$ (114)                                     |
| Unpaid deferred financing costs                             | \$ —                                         | \$ 94                                        |

## Note 9 — Related Party Transactions and Arrangements

### *Advisory Agreements and Conditional Fee Waiver*

On May 31, 2012, the Company 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 could 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 the Company's 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 refers 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 the board of directors, in future periods, previously waived fees may be paid to the Advisers if and only to the extent that the 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, the Company and the Advisers agreed to an amendment to the Conditional Fee Waiver Agreement which extended the term of the fee waiver with respect to the Adviser through December 31, 2014. The terms of the fee waiver were not extended with respect to the Sub-Adviser, whose waiver expired on December 31, 2013, (except with respect to a subordinated incentive fee on income payable for the period October 1, 2014 to December 31, 2014 which the Sub-Adviser has agreed to waive).

On April 15, 2015, the Company and the Advisers agreed to a further amendment (the "Fee Waiver Amendment") to the Conditional Fee Waiver Agreement. Under the Fee Waiver Amendment, the Advisers have agreed to extend the term of the fee waiver with respect to our Adviser through December 31, 2015. The terms of the fee waiver were not extended with respect to the Sub-Adviser (except for the subordinated incentive fee on income for the period January 1, 2015 to March 31, 2015, which the Sub-Adviser has agreed to waive). The Adviser has no obligation to waive fees pursuant to the Conditional Fee Waiver Agreement after December 31, 2015, unless the fee waiver period is further extended.

Reimbursement of previously waived fees will only be permitted with the approval of the board of directors and if the operating expense ratio is equal to or less than the 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.

In a separate agreement between the Adviser and the Sub-Adviser dated April 15, 2015 and effective January 1, 2015, the Sub-Adviser agreed to conditionally reimburse the Adviser for fifty percent of the fees waived each quarter in 2015, up to \$200,000 in total waived fees per quarter. If the total amount conditionally reimbursed by the Sub-Adviser in 2015 is less than both (i) fifty percent of the fees waived by the Adviser for 2015 excluding any previously reimbursed amounts and (ii) \$400,000, then the Sub-Adviser shall reimburse the Adviser, in connection with the payment of management fees to the Sub-Adviser for the fourth quarter of 2015, the difference between (A) fifty percent of the fees waived by the Adviser for 2015 excluding any previously reimbursed amounts minus (B) any amounts conditionally reimbursed by the Sub-Adviser in 2015, up to a maximum of \$400,000 of total conditional reimbursements by the Sub-Adviser.



For the three months ended March 31, 2015 and 2014, the Company incurred base management fees of approximately \$3.0 million and \$606,000, respectively, and the Advisers waived base management fees of \$0 and \$303,000, respectively. Accordingly, net of waivers, the Company paid base management fees of approximately \$3.0 million for the three months ended March 31, 2015 and paid base management fees of approximately \$303,000 for the three months ended March 31, 2014. For the three months ended March 31, 2015 and 2014, the Company incurred capital gains incentive fees of \$0 and \$0, respectively, and subordinated incentive fees on income of \$358,000 and \$0, respectively. For the three months ended March 31, 2015 and 2014, the Advisers waived capital gains incentive fees of \$0 and \$0, respectively, and subordinated incentive fees on income of \$358,000 and \$0, respectively. For the three months ended March 31, 2015 and 2014, 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 becomes probable and estimable, which will be upon approval of the Company's board of directors.

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 not related to advisory services. For the three months ended March 31, 2015 and 2014, the Company incurred, and the Advisers waived the reimbursement of, administrative services expenses of \$437,000 and \$329,000, respectively. The Advisers have agreed to waive the reimbursement of administrative services expenses through June 30, 2015. The waiver of the reimbursement of administrative service 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"). On April 15, 2015, the Company and the Adviser agreed to an amendment to the 2013 Expense Reimbursement Agreement (the "2013 Expense Reimbursement Amendment"). Under the 2013 Expense Reimbursement Amendment, reimbursement of Expense Support Payments made under the 2013 Expense Reimbursement Agreement shall be made in accordance with and subject to the provisions of the Fee Waiver Amendment. All other terms of the 2013 Expense Reimbursement Agreement remain unchanged.

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"). On April 15, 2015, the Company and the Adviser agreed to a further amendment to the 2014 Expense Reimbursement Agreement, or "Fourth Amendment". Under the Fourth Amendment, which is effective December 31, 2014, reimbursement of Expense Support Payments made under the 2014 Expense Reimbursement Agreement shall be made in accordance with and subject to the Fee Waiver Amendment. All other terms of the 2014 Expense Reimbursement Agreement remain unchanged. There is currently no agreement in place for the Adviser to provide Expense Support to the Company after December 31, 2014.

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) <sup>(1)</sup> | Expiration of the Advisers' Right to Receive Reimbursement of Previously Waived Fees and Expense Support Payments <sup>(2)</sup> | Amount of Administrative Expense Waivers (in thousands) <sup>(3)</sup> | Operating Expense Ratio as of the Date of the Fee Waivers <sup>(4)</sup> | Annualized Distribution Rate as of the Date of the Fee Waivers <sup>(5)</sup> |
|--------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| 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%                                                                         |
| March 31, 2015     | \$358                                                                            | March 31, 2017                                                                                                                   | \$437                                                                  | 1.78%                                                                    | 7.18%                                                                         |

- (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. 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 June 30, 2015. 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. "Annualized Distribution Rate" does not include the special stock dividend paid to stockholders on September 14, 2012.

As of March 31, 2015 and March 31, 2014, the Adviser and Sub-Adviser have incurred approximately \$7.4 million and \$6.8 million, respectively, of Offering costs on the Company's behalf. On May 31, 2012, the Company 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 March 31, 2015, the balance of the due to affiliate liability was \$1.5 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 Advisers for the Offering costs incurred on the Company's behalf. Based on the \$7.4 million of offering costs incurred by the Advisers through March 31, 2015, the Company would have to raise approximately \$493.3 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 March 31, 2015, approximately \$5.9 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 three months ended March 31, 2015 and 2014 and amounts unpaid as of March 31, 2015 and December 31, 2014 (in thousands).

| Type and Recipient                                         | Incurred                     |        | Unpaid as of    |                   |
|------------------------------------------------------------|------------------------------|--------|-----------------|-------------------|
|                                                            | Three Months Ended March 31, |        | March 31, 2015  | December 31, 2014 |
|                                                            | 2015                         | 2014   |                 |                   |
| Base Management Fees (1) - the Adviser, Sub-Adviser        | \$ 3,007                     | \$ 303 | \$ 3,007        | \$ 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                  | 555                          | 481    | 1,467           | 2,388             |
| Expense Support from Adviser                               | —                            | —      | —               | —                 |
| Other (2) - the Adviser                                    | 65                           | 115    | 14              | 62                |
| Selling Commissions - Dealer Manager                       | 6,038                        | 2,396  | 1               | —                 |
| Dealer Manager Fee - Dealer Manager                        | 2,619                        | 1,163  | (19)            | —                 |
| <b>Due to Affiliates</b>                                   |                              |        | <b>\$ 4,470</b> | <b>\$ 4,530</b>   |

- (1) Net of amounts waived by the Adviser and Sub-Adviser.
- (2) Includes amounts the Adviser paid on behalf of the Company such as general and administrative services expenses.

#### Note 10 – Share Repurchase Plan

Since inception of the share repurchase program, the Company funded the repurchase of \$451,000 in shares. For the three months ended March 31, 2015 and 2014, the Company funded \$289,000 and \$15,000, 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 March 31, 2015, the Company had a total of approximately \$24.4 million in outstanding commitments comprised of (i) seven commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) two capital commitment that had not been fully called. At December 31, 2014, the Company had \$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.

|                                       | <b>Commitments and Contingencies</b> |               |
|---------------------------------------|--------------------------------------|---------------|
|                                       | <b>(in thousands)</b>                |               |
|                                       | <b>March 31, 2015</b>                |               |
| <b>Unfunded Loan Commitments</b>      |                                      |               |
| Arcus Hunting, LLC                    | \$                                   | 1,453         |
| Datacom, LLC                          |                                      | 1,300         |
| Guerdon Modular Holdings, Inc.        |                                      | 400           |
| Minute Key, Inc.                      |                                      | 800           |
| Mystic Logistics, Inc.                |                                      | 200           |
| Parq Holdings, LP                     |                                      | 1,274         |
| Volusion, LLC                         |                                      | 3,000         |
| <b>Unfunded Capital Commitments</b>   |                                      |               |
| Brightwood Capital Fund III, LP       |                                      | 3,500         |
| Freeport First Lien Loan Fund III, LP |                                      | 12,500        |
| <b>Total</b>                          | <b>\$</b>                            | <b>24,427</b> |

#### Note 12 – Subsequent Events

From April 1, 2015 through April 30, 2015, the Company has raised approximately \$32.6 million in the public offering. During this period, the Company has funded approximately \$97.2 million in investments and received proceeds from repayments and dispositions of approximately \$12.3 million.

On May 1, 2015, the Company increased its public offering price from \$9.75 per share to \$9.90 per share. The increase in the public offering price was effective as of the Company's May 7, 2015 weekly closing. In accordance with the Company's share pricing policy, its board of directors determined that an increase in the public offering price per share was warranted following an increase in the Company's estimated net asset value per share in order to ensure that the Company's net asset value per share does not exceed its net offering price per share. As a result of the increase in the Company's public offering price per share, the maximum combined sales commission and dealer manager fee per share and the net proceeds per share were correspondingly increased from \$0.97 to \$0.99 and \$8.78 to \$8.91, respectively.

On May 5, 2015, the Company's wholly-owned Structured Subsidiary, the Company, Deutsche Bank and the Collateral Agent entered into the Fourth Amendment to the HMS Funding Facility increasing the borrowing capacity to \$225 million. No other terms or conditions were modified as a result of this agreement.

On May 11, 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 its board of directors, 578,584.51 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.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*The following discussion is based on the unaudited condensed consolidated financial statements as of March 31, 2015 and December 31, 2014, and for the three months ended March 31, 2015 and 2014. Amounts as of December 31, 2014 included in the unaudited condensed consolidated financial statements have been derived from the Company's audited consolidated financial statements as of that date. This information should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto, as well as the audited consolidated financial statements, notes and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2014. Capitalized terms used in this Item 2 have the same meaning as in the accompanying condensed consolidated financial statements in Item 1 unless otherwise defined herein.*

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

### Forward-Looking Statements

Some of the statements in this Report constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this Report may include statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

In addition, words such as "anticipate," "believe," "expect" and "intend" indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this Report involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this Report. Other factors that could cause actual results to differ materially include:

- changes in the economy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- future changes in laws or regulations and conditions in our operating areas.

We have based the forward-looking statements included in this Report on information available to us on the date of this Report. Except as required by the federal securities laws, we assume no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this Report are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended.

### OVERVIEW

We are a specialty finance company sponsored by Hines that makes debt and equity investments in middle market ("Middle Market") companies, which we define as companies with annual revenues generally between \$10 million and \$3 billion and in lower middle market ("LMM") companies, which we define as companies with annual revenues generally between \$10 million and \$150 million. 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 LMM companies, referred to as customized LMM securities. Typically, our investments in LMM companies will require us to co-invest with Main Street and/or its affiliates. We categorize some of our investments in LMM companies and Middle Market companies as private loan ("Private Loan") portfolio investments, which are primarily debt securities issued by companies that are consistent in size with either 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 ("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.

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 co-invested alongside Main Street and/or its affiliates only in accordance with existing regulatory guidance. These co-investments were in syndicated deals and secondary loan market transactions where price is the only negotiated point.

As of March 31, 2015, we had investments in 84 Middle Market debt investments, 14 Private Loan debt investments, 12 LMM debt investments, 11 LMM equity investments, 1 Private Loan equity investment and 1 Other Portfolio investment with an aggregate fair value of approximately \$659.9 million, a cost basis of approximately \$669.8 million, and a weighted average effective annual yield of approximately 8.5%. The weighted average annual yield was calculated using the effective interest rates for all investments at March 31, 2015, 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 76.5% and 20.5% 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, dividend income, 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, the 1940 Act, and other applicable federal and state securities laws;
- costs associated with our reporting and compliance obligations under the 1940 Act and other 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 Fee, Incentive Fee, Administrative Expense Waiver and Expense Support and Conditional Reimbursement Agreement*

On May 31, 2012, we and our 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, our Advisers can waive all fees upon the occurrence of any event that, in our 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 our Advisers if and only to the extent that the 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 to the Conditional Fee Waiver Agreement which extended the term of the fee waiver with respect to our Adviser through December 31, 2014. The terms of the fee waiver were not extended with respect to our Sub-Adviser, whose waiver expired on December 31, 2013, (except with respect to a subordinated incentive fee on income payable for the period October 1, 2014 to December 31, 2014 which our Sub-Adviser has agreed to waive).

On April 15, 2015, we and our Advisers agreed to a further amendment (the "Fee Waiver Amendment") to the Conditional Fee Waiver Agreement. Under the Fee Waiver Amendment, our Advisers have agreed to extend the term of the fee waiver with respect to our Adviser through December 31, 2015. The terms of the fee waiver were not extended with respect to our Sub-Adviser (except for the subordinated incentive fee on income for the period January 1, 2015 to March 31, 2015, which our Sub-Adviser has agreed to waive). Our Adviser has no obligation to waive fees pursuant to the Conditional Fee Waiver Agreement after December 31, 2015, unless the fee waiver period is further extended.

Reimbursement of previously waived fees will only be permitted with the approval of our board of directors and if the operating expense ratio is equal to or less than the 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.

In a separate agreement between our Adviser and our Sub-Adviser dated April 15, 2015 and effective January 1, 2015, our Sub-Adviser agreed to conditionally reimburse our Adviser for fifty percent of the fees waived each quarter in 2015, up to \$200,000 in total waived fees per quarter. If the total amount conditionally reimbursed by our Sub-Adviser in 2015 is less than both (i) fifty percent of the fees waived by our Adviser for 2015 excluding any previously reimbursed amounts and (ii) \$400,000, then our Sub-Adviser shall reimburse our Adviser, in connection with the payment of management fees to our Sub-Adviser for the fourth quarter of 2015, the difference between (A) fifty percent of the fees waived by our Adviser for 2015 excluding any previously reimbursed amounts minus (B) any amounts conditionally reimbursed by our Sub-Adviser in 2015, up to a maximum of \$400,000 of total conditional reimbursements by our Sub-Adviser.

For the three months ended March 31, 2015 and 2014, we incurred base management fees of \$3.0 million and \$606,000, respectively, and our Advisers waived base management fees of \$0 and \$303,000, respectively. Accordingly, net of waivers, we paid base management fees of \$3.0 million for the three months ended March 31, 2015 and paid base management fees of \$303,000 for the three months ended March 31, 2014. For the three months ended March 31, 2015 and 2014, we incurred capital gains incentive fees of \$0 and \$0, respectively, and subordinated incentive fees on income of \$358,000 and \$0, respectively. For the three months ended March 31, 2015 and 2014, our Advisers waived capital gains incentive fees of \$0 and \$0, respectively, and subordinated incentive fees on income of \$358,000 and \$0, respectively. For the three months ended March 31, 2015 and 2014, we did not record an accrual for any previously waived fees. Any future reimbursement of previously waived fees to our Advisers will not be accrued until the reimbursement of the waived fees become probable and estimable which will be upon approval of our board of directors. To date none of the previously waived fees have been approved by our board of directors for reimbursement.

Pursuant to the Advisory Agreement and Sub-Advisory Agreement, we are required to pay or reimburse our Advisers for administrative services expenses, which include all costs and expenses related to the day-to-day administration and management not related to advisory services. For the three months ended March 31, 2015 and 2014, we incurred, and our Advisers waived the reimbursement of, administrative services expenses of \$437,000 and \$329,000, respectively. Our Advisers have agreed to waive the reimbursement of administrative services expenses through June 30, 2015. The waiver of the reimbursement of administrative service expenses is not subject to future reimbursement.

On April 15, 2015, we and our Adviser agreed to an amendment to the 2013 Expense Reimbursement Agreement, (the "2013 Expense Reimbursement Amendment"), in which payment of current base management fees and incentive fees shall have priority over the repayment of the Expense Support Payment to the extent that these fees have not been waived. Under the 2013 Expense Reimbursement Amendment, the repayment of the Expense Support Payment will be considered permanently waived if it has not been reimbursed three years after the Expense Support Payment was made, as described above.

On April 15, 2015, we and our Adviser agreed to an amendment to the 2014 Expense Reimbursement Agreement, or "2014 Expense Reimbursement Amendment," in which payment of current base management fees and incentive fees shall have priority over the repayment of the 2014 Expense Support Payment to the extent that these fees have not been waived. Under the 2014 Expense Support Amendment, the repayment of the 2014 Expense Support Payment will be considered permanently waived if it has not been reimbursed three years after the 2014 Expense Support Payment was made as described above.

## **CRITICAL ACCOUNTING POLICIES**

Each of our critical accounting policies involves the use of estimates that require management to make assumptions that are subjective in nature. Management relies on its experience, collects historical and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates. In addition, application of these accounting policies involves the exercise of judgments regarding assumptions as to future uncertainties. Actual results could materially differ from these estimates. A disclosure of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended



December 31, 2014 in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no changes to our critical accounting policies during 2015.

## **PORTFOLIO INVESTMENT COMPOSITION**

Our Middle Market 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 Middle Market debt investments are generally secured by a first priority lien, 21.9% of the fair value of our Middle Market portfolio is secured by second priority liens.

Our current LMM portfolio consists of debt investments secured by first and second priority liens (62.4% and 2.4% of the total fair value of the LMM portfolio, respectively) on the assets of the portfolio companies and equity investments (35.2% of the total fair value of the LMM portfolio) 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 Middle Market portfolio, but are investments which have been originated through strategic relationships with other investment funds on a collaborative basis. Our Private Loan portfolio primarily consists of debt investments secured by first and second priority liens (76.7% and 23.1% of the total fair value of the Private Loan portfolio) 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 consist of investments which are not consistent with the typical profiles for LMM, Middle Market 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 three months ended March 31, 2015, we funded investment purchases of approximately \$187.2 million and had 15 investments under contract to purchase as of March 31, 2015, for approximately \$68.9 million, which settled or are scheduled to settle after March 31, 2015. We also received proceeds from sales and repayments of existing portfolio investments of approximately \$24.6 million including \$21.1 million in full prepayment and \$3.5 million in sales. Additionally, we had one investment under contract to sell as of March 31, 2015, for approximately \$1.0 million, which represents the contract sales price. The combined result of which increased our portfolio, on a cost basis, by approximately \$182.2 million, or 37.4%, and the number of portfolio investments by 14, or 12.8%, compared to the portfolio as of December 31, 2014. As of March 31, 2015, the largest investment in an individual portfolio company represented approximately 2.2% of our portfolio's fair value with the remaining investments ranging from 0.002% to 2.2%. The average investment in our portfolio is approximately \$5.4 million or 0.8% 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 76.3% first lien debt securities, 20.5% 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 three months ended March 31, 2014, we made investment purchases of approximately \$49.4 million and had 32 investments under contract to purchase as of March 31, 2014 for approximately \$49.2 million, which settled after March 31, 2014. We also received proceeds from sales and repayments of existing portfolio investments of approximately \$12.9 million including \$8.0 million in full repayment and \$3.9 million in sales and had two investments under contract to sell as of March 31, 2014 for approximately \$3.0 million represents the contract sales price.

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 as of both March 31, 2015 and December 31, 2014. Lastly, the overall weighted average effective yield on our investment portfolio has increased from 8.1% at December 31, 2014 to 8.5% as of March 31, 2015.

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):

| <b>Cost:</b>             | <b>March 31, 2015</b> |                     |                      |              | <b>December 31, 2014</b> |                     |                      |              |
|--------------------------|-----------------------|---------------------|----------------------|--------------|--------------------------|---------------------|----------------------|--------------|
|                          | <b>LMM</b>            | <b>Private Loan</b> | <b>Middle Market</b> | <b>Total</b> | <b>LMM</b>               | <b>Private Loan</b> | <b>Middle Market</b> | <b>Total</b> |
| First Lien Secured Debt  | 63.4%                 | 77.7%               | 77.6%                | 76.6%        | 67.9%                    | 76.2%               | 80.8%                | 79.4%        |
| Second Lien Secured Debt | 2.5%                  | 22.1%               | 21.9%                | 20.5%        | 2.9%                     | 23.8%               | 18.6%                | 18.1%        |
| Equity                   | 32.7%                 | 0.2%                | —%                   | 2.4%         | 29.0%                    | —%                  | —%                   | 2.0%         |
| Equity warrants          | 1.4%                  | —%                  | —%                   | 0.1%         | 0.2%                     | —%                  | —%                   | —%           |
| Unsecured Debt           | —%                    | —%                  | 0.5%                 | 0.4%         | —%                       | —%                  | 0.6%                 | 0.5%         |
| Total                    | 100.0%                | 100.0%              | 100.0%               | 100.0%       | 100.0%                   | 100.0%              | 100.0%               | 100.0%       |

| <b>Fair Value:</b>       | <b>March 31, 2015</b> |                     |                      |              | <b>December 31, 2014</b> |                     |                      |              |
|--------------------------|-----------------------|---------------------|----------------------|--------------|--------------------------|---------------------|----------------------|--------------|
|                          | <b>LMM</b>            | <b>Private Loan</b> | <b>Middle Market</b> | <b>Total</b> | <b>LMM</b>               | <b>Private Loan</b> | <b>Middle Market</b> | <b>Total</b> |
| First Lien Secured Debt  | 62.4%                 | 76.7%               | 77.7%                | 76.5%        | 67.9%                    | 74.9%               | 80.9%                | 79.4%        |
| Second Lien Secured Debt | 2.4%                  | 23.1%               | 21.9%                | 20.5%        | 2.9%                     | 25.1%               | 18.5%                | 18.0%        |
| Equity                   | 33.8%                 | 0.2%                | —%                   | 2.6%         | 29.0%                    | —%                  | —%                   | 2.1%         |
| Equity warrants          | 1.4%                  | —%                  | —%                   | 0.1%         | 0.2%                     | —%                  | —%                   | —%           |
| Unsecured Debt           | —%                    | —%                  | 0.4%                 | 0.3%         | —%                       | —%                  | 0.6%                 | 0.5%         |
| Total                    | 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 United 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):

|                   | <b>March 31, 2015</b>      |                                           |                                  |                                                 |
|-------------------|----------------------------|-------------------------------------------|----------------------------------|-------------------------------------------------|
|                   | <b>Investments at Cost</b> | <b>Cost Percentage of Total Portfolio</b> | <b>Investments at Fair Value</b> | <b>Fair Value Percentage of Total Portfolio</b> |
| Northeast         | \$ 164,872                 | 24.7%                                     | \$ 165,580                       | 25.2%                                           |
| Southeast         | 134,516                    | 20.1%                                     | 134,833                          | 20.5%                                           |
| Southwest         | 109,301                    | 16.4%                                     | 106,161                          | 16.1%                                           |
| West              | 132,499                    | 19.8%                                     | 124,672                          | 18.9%                                           |
| Midwest           | 98,557                     | 14.7%                                     | 99,619                           | 15.1%                                           |
| Non-United States | 28,446                     | 4.3%                                      | 27,426                           | 4.2%                                            |
| Total             | \$ 668,191                 | 100.0%                                    | \$ 658,291                       | 100.0%                                          |

|                   | <b>December 31, 2014</b>   |                                           |                                  |                                                 |
|-------------------|----------------------------|-------------------------------------------|----------------------------------|-------------------------------------------------|
|                   | <b>Investments at Cost</b> | <b>Cost Percentage of Total Portfolio</b> | <b>Investments at Fair Value</b> | <b>Fair Value Percentage of Total Portfolio</b> |
| Northeast         | \$ 128,556                 | 26.5%                                     | \$ 127,734                       | 27.0%                                           |
| Southwest         | 116,737                    | 24.0%                                     | 116,803                          | 24.7%                                           |
| West              | 77,402                     | 15.9%                                     | 73,993                           | 15.7%                                           |
| Southeast         | 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 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     |                   |
|------------------------------------------------|----------------|-------------------|----------------|-------------------|
|                                                | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Media                                          | 8.1%           | 9.4%              | 7.9%           | 9.2%              |
| IT Services                                    | 6.8%           | 7.1%              | 6.8%           | 7.1%              |
| Diversified Consumer Services                  | 6.3%           | 4.5%              | 6.4%           | 4.6%              |
| Hotels, Restaurants, and Leisure               | 6.3%           | 7.5%              | 6.3%           | 7.6%              |
| Oil, Gas, and Consumable Fuels                 | 6.3%           | 5.6%              | 5.6%           | 4.7%              |
| Internet Software and Services                 | 5.1%           | 2.9%              | 5.2%           | 3.0%              |
| Health Care Providers and Services             | 5.1%           | 3.7%              | 5.1%           | 3.8%              |
| Food Products                                  | 4.1%           | 5.1%              | 4.2%           | 5.1%              |
| Pharmaceuticals                                | 3.7%           | 2.1%              | 3.8%           | 2.2%              |
| Specialty Retail                               | 3.2%           | 2.5%              | 3.2%           | 2.4%              |
| Software                                       | 3.0%           | 3.7%              | 3.0%           | 3.8%              |
| Construction and Engineering                   | 2.6%           | 3.5%              | 2.6%           | 3.7%              |
| Chemicals                                      | 2.7%           | 3.0%              | 2.8%           | 3.1%              |
| Auto Components                                | 2.7%           | 3.8%              | 2.8%           | 3.9%              |
| Leisure Equipment and Products                 | 2.6%           | 1.6%              | 2.7%           | 1.6%              |
| Energy Equipment and Services                  | 2.9%           | 3.3%              | 2.5%           | 2.7%              |
| Machinery                                      | 2.3%           | 3.0%              | 2.4%           | 3.1%              |
| Commercial Services and Supplies               | 2.1%           | 2.3%              | 2.2%           | 2.3%              |
| Tobacco                                        | 1.9%           | 1.7%              | 1.9%           | 1.8%              |
| Electronic Equipment, Instruments & Components | 1.8%           | 2.6%              | 1.9%           | 2.7%              |
| Diversified Telecommunication Services         | 1.7%           | 1.4%              | 1.7%           | 1.4%              |
| Textiles, Apparel, & Luxury Goods              | 1.6%           | 2.1%              | 1.6%           | 2.2%              |
| Aerospace and Defense                          | 1.5%           | 1.4%              | 1.5%           | 1.4%              |
| Diversified Financial Services                 | 1.3%           | —%                | 1.4%           | —%                |
| Metals and Mining                              | 1.2%           | 1.6%              | 1.2%           | 1.6%              |
| Marine                                         | 1.2%           | 1.6%              | 1.2%           | 1.7%              |
| Distributors                                   | 1.1%           | 1.6%              | 1.2%           | 1.6%              |
| Building Products                              | 1.1%           | —%                | 1.1%           | —%                |
| Household Products                             | 1.1%           | 1.6%              | 1.1%           | 1.6%              |
| Internet and Catalog Retail                    | 1.1%           | 1.5%              | 1.1%           | 1.5%              |
| Personal Products                              | 1.1%           | —%                | 1.1%           | —%                |
| Health Care Equipment and Supplies             | 1.0%           | 1.4%              | 1.0%           | 1.4%              |
| Insurance                                      | 1.0%           | 1.3%              | 1.0%           | 1.4%              |
| Automobiles                                    | 0.9%           | 1.2%              | 0.9%           | 1.3%              |
| Professional Services                          | 0.9%           | 1.2%              | 0.8%           | 1.2%              |
| Healthcare Technology                          | 0.7%           | 1.0%              | 0.8%           | 1.0%              |
| Air Freight & Logistics                        | 0.5%           | 0.6%              | 0.6%           | 0.7%              |
| Containers and Packaging                       | 0.3%           | 0.5%              | 0.3%           | 0.5%              |
| Consumer Finance                               | 0.5%           | 0.5%              | 0.5%           | 0.5%              |
| Life Sciences Tools and Services               | 0.2%           | 0.3%              | 0.2%           | 0.3%              |
| Electric Utilities                             | 0.2%           | 0.3%              | 0.2%           | 0.3%              |
| Airlines                                       | 0.2%           | —%                | 0.2%           | —%                |
| 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 March 31, 2015, we owned a diversified portfolio of 123 investments in 106 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:

- 84 debt investments in 81 Middle Market portfolio companies with an aggregate fair value of approximately \$550.5 million and a cost basis of approximately \$559.4 million. The Middle Market portfolio had a weighted average annual effective yield of approximately 8.4% and 77.7% of the investments were secured by first priority liens. Further, 86.0% of the Middle Market 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.
- 14 debt investments in 12 Private Loan portfolio companies with an aggregate fair value of approximately \$58.6 million and a cost basis of approximately \$60.5 million. The Private Loan portfolio had a weighted average annual effective yield of approximately 9.9%, which is calculated assuming the investments on non-accrual status are non-yielding, and 76.7% of the Private Loan investments were secured by first priority liens. Further, 64.8% 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.
- 12 debt investments in 12 LMM portfolio companies with an aggregate fair value of approximately \$31.8 million and a cost basis of approximately \$31.7 million. The LMM debt investments had a weighted average annual effective yield of approximately 11.9% and 96.2% of the debt investments were secured by first priority liens. Further, 70.0% of the LMM debt investments are fixed rate investments with fixed interest rates between 9.0% and 12.0%. Two LMM debt investments, representing approximately 30.0% of the LMM debt investments, have variable interest rates, subject to a contractual minimum base interest rate of 100 basis points.
- 10 equity investments and 3 equity warrant investments in 9 LMM portfolio companies, 1 Private Loan portfolio company and 1 Other Portfolio company with an aggregate fair value of approximately \$18.9 million and a cost basis of approximately \$18.1 million.

Overall, our investment portfolio had a weighted average effective yield of approximately 8.5%, and 76.3% of the investments were secured by first-priority liens.

As of March 31, 2015, we had two investments in one portfolio company, Clarius BIGS, LLC, that were in default for failure to pay the combined outstanding principal balance of \$4.4 million due upon the maturity of the loan. Our Advisers are currently working with the borrower to maximize recovery of the amounts borrowed. As of March 31, 2015, these two investments on non-accrual status comprised approximately 0.3% of the total Investment Portfolio at fair value and 0.6% of the total Investment Portfolio at cost. As of December 31, 2014, none of our investments were in default. For those investments in which S&P credit ratings are available, approximately 54.1% 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 March 31, 2015 and December 31, 2014 (dollars in thousands):

| Investment Rating | March 31, 2015            |                                   | December 31, 2014         |                                   |
|-------------------|---------------------------|-----------------------------------|---------------------------|-----------------------------------|
|                   | Investments at Fair Value | Percentage of Total LMM Portfolio | Investments at Fair Value | Percentage of Total LMM Portfolio |
| 1                 | \$ —                      | —%                                | \$ —                      | —%                                |
| 2                 | 4,782                     | 9.7%                              | 750                       | 2.2%                              |
| 3                 | 41,816                    | 85.2%                             | 31,996                    | 95.2%                             |
| 4                 | 2,502                     | 5.1%                              | 870                       | 2.6%                              |
| 5                 | —                         | —%                                | —                         | —%                                |
| Totals            | \$ 49,100                 | 100.0%                            | \$ 33,616                 | 100.0%                            |

Based upon the investment rating system, the weighted average rating of our LMM portfolio at fair value was approximately 3.0 as of both March 31, 2015 and December 31, 2014.

## DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

### RESULTS COMPARISONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND MARCH 31, 2014

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

For the three months ended March 31, 2015 and 2014, our total investment income was approximately \$11.8 million and \$1.7 million, respectively, consisting predominately of interest income. As of March 31, 2015 the portfolio had a weighted average annual effective yield on investments of approximately 8.5% compared to 7.3% as of March 31, 2014, and our average investment portfolio for the three months ended March 31, 2015 was \$566.9 million compared to \$104.1 million for the three months ended March 31, 2014. Additionally, during the three months ended March 31, 2015 and 2014, we accreted approximately \$489,000 and \$215,000, 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.

For the three months ended March 31, 2015, expenses, net of base management fee, incentive fee and administrative services expenses waivers and expense support payment, were approximately \$5.5 million as compared to expenses of approximately \$837,000 for the three months ended March 31, 2014. The increase in expenses is primarily due to increases in management and incentive fees (net of fee waivers) of \$2.7 million, interest expense of \$1.8 million, and other general and administrative expense of \$154,000. Interest expense increased due to an increase in the average borrowings during the period. Average borrowings were \$223.4 million for the three months ended March 31, 2015 compared to \$20.8 million for the three months ended March 31, 2014. Additionally, interest expense was higher for the three months ended March 31, 2015, 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 March 31, 2015 and March 31, 2014, the interest rate on borrowings was approximately 3%. 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.

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, 2014 totaling approximately \$226,000 and for the period January 1, 2015 to March 31, 2015 totaling approximately \$179,000, which our Sub-Adviser has agreed to waive. Our Adviser waived its fees in 2014 in an amount necessary for distributions declared to not represent a return of capital for federal tax purposes. During the three months ended March 31, 2014, our Adviser's management fees were waived, and no incentive fees were accrued or waived during the period. For the three months ended March 31, 2015, the base management and incentive fees, net of fee waivers, were approximately \$3.0 million compared to a net fee of \$303,000 for the three months ended March 31, 2014.

For the three months ended March 31, 2015, the net increase in net assets resulting from operations (gross of stockholder distributions declared) was approximately \$10.2 million. The increase was attributable to net investment income of approximately \$6.3 million, realized gains of approximately \$20,000, and unrealized appreciation on investments of approximately \$3.8 million.

For the three months ended March 31, 2014, the net increase in net assets was approximately \$1.1 million. The increase was primarily attributable to net investment income of approximately \$824,000, realized gains of approximately \$69,000 and unrealized appreciation on investments of approximately \$228,000.

## ***Liquidity and Capital Resources***

### ***Cash Flows***

For the three months ended March 31, 2015, we experienced a net increase in cash and cash equivalents of approximately \$4.0 million. During that period, approximately \$157.7 million of cash was used in our operating activities, which primarily consisted of the purchase of new portfolio investments of \$187.2 million, offset by a net increase in net assets resulting from operations of approximately \$10.2 million and principal repayments from and sales of investments in portfolio companies of \$24.6 million. During the three months ended March 31, 2015, approximately \$161.7 million was generated from financing activities, which principally consisted of a net \$81.1 million increase in borrowings under the Syndicated Credit Facility and HMS Funding Facility, and \$84.4 million in net Offering proceeds received, offset by \$2.8 million in cash distributions paid to stockholders and \$752,000 paid for financing costs related to our Syndicated Credit Facility amendment and HMS Funding Facility entered into during the three months ended March 31, 2015.

For the three months ended March 31, 2014, we experienced a net increase in cash and cash equivalents of approximately \$11.2 million. During that period, approximately \$35.5 million of cash was used in our operating activities, which primarily consisted of the purchase of new portfolio debt investments of \$49.4 million, offset by a net increase in net assets resulting from the operations of approximately \$1.1 million and principal repayments from and sales of investments in portfolio companies of \$12.9 million. During the three months ended March 31, 2014, approximately \$46.6 million was generated from financing activities, which principally consisted of a net \$13.5 million increase in borrowings under the Syndicated Credit Facility and \$34.3 million in net Offering proceeds received, offset by \$631,000 in cash distributions paid to stockholders and \$520,000 paid for fees related to our Syndicated Credit Facility amendment entered into during the quarter.

### ***Initial Offering***

During the three months ended March 31, 2015, we raised proceeds of \$98.9 million from the Offering, including proceeds from the distribution reinvestment plan, and made payments of \$8.7 million for selling commissions and dealer manager fees. We also incurred an obligation for \$1.5 million of Offering costs related to the Offering.

During the three months ended March 31, 2014, we raised proceeds of \$39.3 million from the Offering, including proceeds from the distribution reinvestment plan, and made payments of \$3.4 million for selling commissions and dealer manager fees. We also incurred an obligation for \$590,000 of Offering costs related to the Offering.

### ***Distributions***

The following table reflects the cash distributions per share that we have declared on our common stock during the three months ended March 31, 2015 (in thousands except per share amounts).

| <b>For the Period Ended</b>       | <b>Distributions</b> |               |
|-----------------------------------|----------------------|---------------|
|                                   | <b>Per Share</b>     | <b>Amount</b> |
| Three months ended March 31, 2015 | \$ 0.17              | \$ 6,260      |

The following table reflects the cash distributions per share that we have declared on our common stock during the three months ended March 31, 2014 (in thousands except per share amounts).

| <b>For the Period Ended</b>       | <b>Distributions</b> |               |
|-----------------------------------|----------------------|---------------|
|                                   | <b>Per Share</b>     | <b>Amount</b> |
| Three months ended March 31, 2014 | \$ 0.17              | \$ 1,276      |

On March 24, 2015, with the authorization of our board of directors, we declared distributions to our stockholders for the period of April 2015 through June 2015. These distributions have been, or will be, calculated based on stockholders of record each day from April 1, 2015 through June 30, 2015 in an amount equal to \$0.00191781 per share, per day. Distributions are paid on the first business day following the completion of each month to which they relate.

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 March 31, 2015, we had approximately \$23.9 million in cash and cash equivalents and our net asset value totaled approximately \$352.5 million equating to approximately \$8.57 per share. The change from the December 31, 2014 net asset value per share of \$8.40 was largely due to the unrealized appreciation on investments in the portfolio. The unrealized appreciation on investments in our portfolio was primarily driven by the improvements in the high yield bond and leveraged loan markets and by some improvements in value of our investments in the oil and gas sector.

As of March 31, 2015, we had \$105.0 million outstanding and zero available under our Syndicated Credit Facility, and approximately \$159.0 million outstanding and \$41.0 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 three months ended March 31, 2015, we raised proceeds of \$98.9 million from the Offering, including proceeds from the distribution reinvestment plan, and made payments of \$8.7 million for selling commissions and dealer manager fees. We also incurred an obligation of \$1.5 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 March 31, 2015, our asset coverage ratio under BDC regulations was 222% when including unfunded commitments as a senior security. As of December 31, 2014, our asset coverage ratio under BDC regulations was 242%. This requirement limits the amount that we may borrow. As of March 31,



2015, considering these limitations, we had the ability to draw upon the entire \$41.0 million of remaining capacity in our Syndicated Credit Facility and the HMS Funding Facility.

Although we have been able to secure access to potential additional liquidity, through proceeds from the Offering and also by entering into our 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 report on Form 10-Q for additional information regarding related party transactions.

### Contractual Obligations

As of March 31, 2015, we had \$264.0 million in borrowings outstanding under our Syndicated Credit Facility and HMS Funding Facility. Unless extended, our Syndicated Credit Facility will expire March 11, 2017, and the HMS Funding Facility will mature on June 3, 2019. Our 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 our Syndicated Credit Facility and HMS Funding Facility.

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings at March 31, 2015 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)  | \$ 105,000                                    | \$ —             | \$ 105,000 | \$ —       | \$ —          |
| HMS Funding Credit Facility (2) | \$ 159,000                                    | \$ —             | \$ —       | \$ 159,000 | \$ —          |

(1) At March 31, 2015, we had drawn the full capacity of our Syndicated Credit Facility.

(2) At March 31, 2015, \$41.0 million remained available under our HMS Funding Facility, subject to the asset coverage ratio restrictions imposed by the 1940 Act, as discussed above.

### Off-Balance Sheet Arrangements

At March 31, 2015, we had a total of approximately \$24.4 million in outstanding commitments comprised of (i) seven commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) two capital commitments that had not been fully called. At December 31, 2014, we had \$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.

### Recent Developments and Subsequent Events

From April 1, 2015 through April 30, 2015, we have raised approximately \$32.6 million in the public offering. During this period, we have funded approximately \$97.2 million in investments and received proceeds from repayments and dispositions of approximately \$12.3 million.

On May 1, 2015, we increased our public offering price from \$9.75 per share to \$9.90 per share. The increase in the public offering price was effective as of our May 7, 2015 weekly closing. In accordance with our share pricing policy, our board of directors determined that an increase in the public offering price per share was warranted following an increase in our estimated net asset value per share in order to ensure that our net asset value per share does not exceed our net offering price per share. As a result of the increase in our public offering price per share, the maximum combined sales commission and dealer manager fee per share and the net proceeds per share were correspondingly increased from \$0.97 to \$0.99 and \$8.78 to \$8.91, respectively.

On May 5, 2015, our wholly-owned Structured Subsidiary, the Company, Deutsche Bank and the Collateral Agent entered into the Fourth Amendment to the HMS Funding Facility increasing the borrowing capacity to \$225 million. No other terms or conditions were modified as a result of this agreement.

On May 11, 2015, we filed a tender offer statement on Schedule TO with the SEC, to commence an offer by us to purchase, as approved by our board of directors, 578,584.51 shares of our 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.

### **Item 3. 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 March 31, 2015, approximately 81.3% of our LMM, Private Loan, and Middle Market 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 \$753,000. As of March 31, 2015, 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 March 31, 2015, we had borrowed at a floating rate of LIBOR plus 2.75%. Therefore, given our current level of borrowing of \$264.0 million, a 1% upward change in interest rates for the next twelve months would increase our interest expense by approximately \$2.6 million. At March 31, 2015, one month LIBOR was approximately 0.2%; therefore, a 0.2% decrease in interest rates would result in a decrease in interest expense of \$528,000.

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 March 31, 2015, we had not entered into any interest rate hedging arrangements.

### **Item 4. 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 March 31, 2015, 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.

No change occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. 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 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 any legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material adverse effect upon our financial condition or results of operations.

### **Item 1A. Risk Factors.**

There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, that we filed with the SEC on March 4, 2015, except as described below.

#### ***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," or "junk," 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.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 (File No. 333-178548), filed on May 31, 2012 and incorporated herein by reference).                                                                                                                                                                                                                                                                                                |
| 3.2                    | Amended and Restated Bylaws of the Registrant (filed as Exhibit 3.2 to the Annual Report on Form 10-K, filed on March 27, 2013 and incorporated herein by reference).                                                                                                                                                                                                                                                                                                                                                                     |
| 10.1                   | Fourth Amendment to Amended and Restated Conditional Fee Waiver Agreement, dated April 15, 2015, by and between HMS Income Fund, Inc., HMS Adviser LP, and MSC Adviser I, LLC (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 21, 2015 and incorporated herein by reference).                                                                                                                                                                                                                          |
| 10.2                   | Amendment to Expense Support and Conditional Reimbursement Agreement, dated April 15, 2015, by and between HMS Income Fund, Inc. and HMS Adviser LP (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed April 21, 2015 and incorporated herein by reference).                                                                                                                                                                                                                                                    |
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| 10.4                   | Amendment No. 4 to the Loan Financing and Servicing Agreement, dated as of May 5, 2015, by and among HMS Funding I LLC, as Borrower, HMS Income Fund, Inc., as Equityholder and Servicer, the financial institutions party thereto as lenders, Deutsche Bank AG, New York branch as Administrative Agent and as a lender and U.S. Bank National Association, as Collateral Agent and Collateral Custodian (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed May 8, 2015 and incorporated herein by reference). |
| 31.1                   | Certification of 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).                                                                                                                                                                                                                                                                                                                     |
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| 32.1                   | Certification of 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 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: May 12, 2015

By: /s/ SHERRI W. SCHUGART

Sherri W. Schugart

Chairperson, Chief Executive Officer and  
President

Date: May 12, 2015

By: /s/ RYAN T. SIMS

Ryan T. Sims

Chief Financial Officer and Secretary

## EXHIBIT INDEX

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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**CERTIFICATION  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Sherri W. Schugart, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 12, 2015

By: /s/ SHERRI W. SCHUGART

Sherri W. Schugart

Chairperson, Chief Executive  
Officer and President

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

I, Ryan T. Sims, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: May 12, 2015

By: /s/ RYAN T. SIMS

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Ryan T. Sims  
Chief Financial Officer and  
Secretary

**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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2015, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(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.

Date: May 12, 2015

By: /s/ SHERRI W. SCHUGART

Sherri W. Schugart

Chairperson, Chief Executive  
Officer and President

Date: May 12, 2015

By: /s/ RYAN T. SIMS

Ryan T. Sims

Chief Financial Officer and  
Secretary