

vests in three annual installments, with the first installment vesting on the date of issuance of the option and the other two installments vesting on the first and second anniversaries of the date of the issuance of the option. Each option expires on the earliest of (a) the tenth anniversary of its date of issuance, (b) 60 days after the optionee ceases to serve as a director of the Company for any reason other than death or permanent and total disability, (c) one year after the date on which the optionee dies or becomes permanently and totally disabled, or (d) the date on which the option is fully exercised. The Option Plan provides that all such options are non-transferable, except for disposition by will or intestacy, and are exercisable during the life of the optionee only by him or her.

6. The Company currently has five non-officer directors. Upon the Commission's issuance of an order approving the option grants under the Option Plan to non-officer directors, those persons will receive options covering an aggregate of 50,000 shares. The 10,000 shares covered by each grant to a non-officer director would represent 0.14%, and the 50,000 shares covered by the grants to the five current non-officer directors would represent 0.72%, of the 6,938,191 shares of the Company's common stock outstanding as of June 30, 1995. As of June 30, 1995, there was an aggregate of 719,600 shares subject to then-outstanding options granted to officers of the Company under the Option Plan, and 317,744 shares available for future grants under the Option Plan (not including the 50,000 shares underlying the options proposed to be issued to the current non-officer directors). The shares subject to such then-outstanding options represent 10.37% of the Company's common stock outstanding on June 30, 1995; if those shares are increased by the 50,000 shares underlying the options proposed to be granted to current non-officer directors, they represent 11.09% of the Company's shares then outstanding. The Company has no other outstanding options, warrants or rights.

7. Non-officer directors are actively involved in managing the Company and in monitoring of the operation of its portfolio companies. Each non-officer director serves on at least one committee of the Company's Board, and serves as a director of at least one of the Company's subsidiaries. In addition, many of the non-officer directors have experience in the industries in which the Company regularly invests, and provide analysis and advice to the Company regarding prospective

investments and in managing the portfolio companies in which the Company has invested.

8. Every investment transaction by the Company requires prior express approval by its board of directors. Each director is provided, well in advance of each board meeting, a detailed narrative outlining the format of each proposed investment, restructuring and follow-on financing transaction under consideration. Whether in the context of a new investment or restructuring, follow-on financing, or disposition of an existing investment, the Company's directors analyze the reports and materials provided, discuss questions and issues with the responsible investment officer and with each other and make and approve recommendations with respect to each such investment decision.

9. The Company also relies upon its directors to review and consider the best use of the Company's resources. The directors review and evaluate reports of outstanding commitments, required reserves for follow-on financing and funds available for future investment for the purpose of evaluating and making these resource allocations. At least once each calendar quarter, directors of the Company review portfolio investments that are non-performing or performing inadequately and evaluate the best course of action for the Company to take under the circumstances. In addition, on a calendar quarter basis, the directors of the Company undertake a good faith valuation of the Company's investments for which no independent market valuations are available, which constitute substantially all of the Company's investments.

10. Non-officer directors frequently advise the investment officers serving the Company in the due diligence process regarding any proposed investment in companies operating in industries of which they have knowledge and expertise. Non-officer directors with industry or other relevant expertise also participate in the analysis or portfolio companies that are performing below expectations or are in a work-out situation.

11. Non-officer directors participate in the analysis of portfolio companies that are performing at or above expectations, and advise the investment officers serving the Company in efforts to monitor performance of such portfolio companies, improve banking or other commercial relationships and consider or prepare for public offerings, acquisitions or the like.

12. For these services, the Company pays its non-officer directors (as well as its officer-directors) \$1,000 for each

meeting of its Board or any committee thereof¹ attended. Allied Investment II and Allied Financial II each also pays its directors \$1,000 for each meeting of its board of directors that the director attends, although a director is not paid for attending such meetings of the Allied Investment II or Allied Financial II Boards on the same day as a meeting of the Company's Board.

Applicant's Legal Analysis

1. Section 61(a)(3)(B)(i)(II) of the Act permits a business development company to issue options to purchase its voting securities to its non-officer, non-employee directors pursuant to an executive compensation plan subject to certain conditions, which include the proposal to issue such options being authorized by the stockholders of the company and approved by the SEC on the basis that the terms of the proposal are fair and reasonable and do not involve overreaching of such company or its stockholders.

2. The Company believes that its proposal to issue options to its non-officer directors satisfies all of such statutory conditions other than SEC approval (including the requirement that if the amount of voting securities that would result from the exercise of outstanding options issued to the Company's directors, officers, and employees would exceed 15% of the Company's outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding options at the time of issuance may not exceed 20% of the outstanding voting securities of the Company) and that granting each non-officer director an option under the Option Plan is fair and reasonable. Non-officer directors provide to the Company skills and experience necessary for management and oversight of the Company's investments and operations, and often have specific experience with respect to industries in which the Company makes a significant number of investments. The Company believes that its ability to make an automatic option grant under the Option Plan to non-officer directors provides a means of retaining the services of its current non-officer directors and of attracting qualified persons to serve as non-officer directors in the future. The Company also believes that such options are a necessary adjunct to its directors' fees to provide fair and reasonable compensation for the services and attention devoted by the non-officer

¹ Non-officer directors are paid \$500 for participation in any committee meeting held on the same day as a meeting of the Company's Board.