

Firsthand Technology Value Fund, Inc.  
Form DEF 14A  
March 20, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Sec. 240.14a-11(c) or Sec. 240.14a-12

FIRSTHAND TECHNOLOGY VALUE FUND, INC.

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(Name of Registrant as Specified in Its Chart)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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1. Title of each class of securities to which transactions applies:

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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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6. Amount Previously Paid:

7. Form, Schedule or Registration Statement No.:

8. Filing Party:

9. Date Filed:

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FIRSTHAND TECHNOLOGY VALUE FUND, INC.  
150 Almaden Boulevard, Suite 1250  
San Jose, CA 95113

March 20, 2014

Dear Fellow Stockholders:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of Firsthand Technology Value Fund, Inc. (the "Company") on Friday, May 23, 2014 at 2:00 p.m., Pacific Time, at Sheraton Sunnyvale Hotel, 1100 North Mathilda Avenue, Sunnyvale, CA 94089.

The Board of Directors has submitted the following two matters for consideration at the meeting:

- i. the election of two directors of the Company;
- ii. the ratification of the selection of Tait, Weller & Baker LLP as the Company's independent registered public accounting firm for its fiscal year ending December 31, 2014; and

In addition, if properly presented at the meeting, stockholders will consider and vote on the following dissident stockholder proposal:

- iii. the termination of the Investment Management Agreement between the Company and Firsthand Capital Management, Inc.

Stockholders at the meeting will also consider the transaction of any other business that may properly come before the meeting or any postponement or adjournment thereof.

The Company's Board of Directors unanimously recommends that you vote FOR the election of each of its two nominees for director and FOR the ratification of the selection of Tait, Weller & Baker LLP as the Company's independent registered public accounting firm.

The Company's Board of Directors unanimously recommends that you vote AGAINST the termination of the Investment Management Agreement for the important reasons discussed in these proxy materials.

We sincerely hope you will be able to attend the meeting. However, whether or not you are personally present, your vote is very important. We are pleased to offer multiple options for voting your shares. You may complete, sign, and date the enclosed WHITE proxy card and return it in the enclosed postage-paid envelope. You may also authorize a proxy to vote your shares electronically via the Internet by using the Internet address on the WHITE proxy card or by telephone using the toll-free number on the WHITE proxy card. Authorizing a proxy will ensure that your vote is counted, even if you cannot attend the meeting and vote in person.

Bulldog Investors, LLC ("Bulldog"), part of the same dissident stockholder group that submitted the termination proposal listed above, has also filed a proxy statement with the Securities and Exchange Commission which principally seeks to (i) elect a slate of two individuals nominated by affiliates of Bulldog as directors of the Company (the "Bulldog Nominees"), (ii) ratify the selection of Tait, Weller & Baker LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014, (iii) terminate the Investment Management Agreement between the Company and Firsthand Cap-



ital Management, Inc., the Company's external manager (the "Termination Proposal"), and (iv) request that the Board consider authorizing a program to repurchase shares when they are trading at a discount from net asset value (the "Share Repurchase Proposal").

For the reasons discussed in the accompanying proxy statement, the election of the Bulldog Nominees and the Share Repurchase Proposal found in the separate proxy statement from Bulldog will not be considered at the Annual Meeting. The exclusion of the Bulldog Nominees and the Share Repurchase Proposal at the Annual Meeting pursuant to our bylaws is not based on a specific ruling of any court and may be subject to challenge by Bulldog. The ratification of the selection of the Company's independent registered public accounting firm already is a Board proposal that will be considered at the Annual Meeting.

We strongly urge you NOT to sign or return any proxy cards sent by Bulldog. Any votes cast with respect to the Bulldog Nominees or the Share Repurchase Proposal in the separate proxy statement from Bulldog will not be counted at the Annual Meeting. Any votes cast with respect to the ratification of the independent registered public accounting firm or the Termination Proposal in the separate proxy statement from Bulldog will be counted at the Annual Meeting. Shares represented by proxies solicited by Bulldog also will be counted as present for purposes of determining the existence of a quorum.

If you have previously signed a proxy card from Bulldog, you can revoke the earlier proxy and vote for our nominees and on the other matters to be properly considered at the Annual Meeting by signing, dating and returning the enclosed WHITE proxy card in the enclosed postage-paid envelope, or by authorizing your proxy electronically via the Internet using the Internet address on the WHITE proxy card or by telephone using the toll-free number on the WHITE proxy card.

Enclosed with this letter are the formal notice of the meeting, the proxy statement, which gives detailed information about the Board's nominees and proposals and why the Board of Directors unanimously recommends that you vote to approve them, a written WHITE proxy card for you to sign and return, and a copy of the Company's annual report to stockholders on Form 10-K.

If you have any questions or need assistance in voting your shares, please call 800.733.6198.

Sincerely,

Kevin Landis  
Chairman of the Board of Directors,  
CEO and President

Firsthand Technology Value Fund, Inc.  
150 Almaden Boulevard, Suite 1250  
San Jose, CA 95113

NOTICE OF 2014 ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Firsthand Technology Value Fund, Inc.:

NOTICE IS HEREBY GIVEN that the 2014 Annual Meeting of Stockholders of Firsthand Technology Value Fund, Inc., a Maryland corporation (the “Company”), will be held on Friday, May 23, 2014 at 2:00 p.m., Pacific Time, at the Sheraton Sunnyvale Hotel, 1100 North Mathilda Avenue, Sunnyvale, CA 94089, to consider and vote on the following matters as more fully described in the accompanying proxy statement:

1. The election of two Class III directors of the Company to serve until the 2017 Annual Meeting of Stockholders and until their successors are duly elected and qualify;
2. The ratification of the selection of Tait, Weller & Baker LLP as the Company’s independent registered public accounting firm for its fiscal year ending December 31, 2014.

In addition, if properly presented at the meeting, stockholders will consider and vote on the following dissident stockholder proposal:

3. The termination of the Investment Management Agreement between the Company and Firsthand Capital Management, Inc.

Stockholders at the meeting will also consider the transaction of any other business that may properly come before the meeting or any postponement or adjournment thereof.

Stockholders of record as of the close of business on March 14, 2014 are entitled to notice of and to vote at the meeting (or any postponement or adjournment of the meeting). Whether or not you plan to attend the meeting, we urge you to review these materials carefully and to authorize a proxy to vote your shares via Internet, by telephone or by submitting your WHITE proxy card as promptly as possible.

Bulldog Investors, LLC, a dissident stockholder (“Bulldog”), has filed a proxy statement with the Securities and Exchange Commission relating to the Annual Meeting. As discussed in the accompanying proxy statement, the Bulldog nominees for director and the share repurchase proposal contained in the Bulldog proxy statement will not be considered at the Annual Meeting. The exclusion of the Bulldog Nominees and the Share Repurchase Proposal at the Annual Meeting pursuant to our bylaws is not based on a specific ruling of any court and may be subject to challenge by Bulldog. Any votes cast with respect to the ratification of the independent registered public accounting firm or the proposal to terminate the Investment Management Agreement in the separate proxy statement from Bulldog will be counted at the Annual Meeting.

The Board of Directors strongly urges you NOT to sign or return any proxy card sent to you by Bulldog. If you have previously signed a proxy card from Bulldog, you can revoke the earlier proxy by signing, dating and returning the enclosed WHITE proxy card in the enclosed postage-paid envelope, or by authorizing your proxy electronically via the Internet using the Internet address on the WHITE proxy card or by telephone using the toll-free number on the WHITE proxy card.

By Order of the Board of Directors of the Company,

Kelvin Leung  
Secretary

March 20, 2014  
San Jose, California



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PROXY STATEMENT  
2014 ANNUAL MEETING OF STOCKHOLDERS  
May 23, 2014

This proxy statement is being sent to you by the Board of Directors (the “Board” or the “Board of Directors”) of Firsthand Technology Value Fund, Inc., a Maryland corporation (the “Company,” “we,” “us,” or “our”). The Board of Directors is asking you to complete, sign, date, and return the enclosed WHITE proxy card, permitting your votes to be cast at the annual meeting (the “Annual Meeting”) of stockholders to be held on Friday, May 23, 2014, at 2:00 p.m., Pacific Time, at Sheraton Sunnyvale Hotel, 1100 North Mathilda Avenue, Sunnyvale, CA 94089.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2014 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 23, 2014:** You should have received, together with this proxy statement, our Annual Report to stockholders for the fiscal year ended December 31, 2013. If you would like another copy of the Annual Report, please write us at the address shown at the top of this page or call us at 800.976.8776. The report will be sent to you without charge. Our reports can be accessed on the Internet (<https://www.proxy-direct.com/svvc-25452>) or on the Securities and Exchange Commission’s (the “SEC”) website ([www.sec.gov](http://www.sec.gov)).

Firsthand Capital Management, Inc. (“FCM” or the “Investment Advisor”) externally manages and advises us pursuant to our investment management agreement. FCM is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. FCM provides investment advice to investment funds and other clients, focusing on the technology and alternative energy sectors. As of December 31, 2013, FCM managed approximately \$370 million. FCM may be contacted at the address listed above.

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

In this section of the proxy statement, we answer some common questions regarding the Annual Meeting and voting at the Annual Meeting.

**Q. WHAT PROPOSALS ARE TO BE PRESENTED AT THE ANNUAL MEETING?**

**A. The proposals to be CONSIDERED and voted upon at the Annual Meeting are:**

• **Proposal One** — the election of two Class III Directors to serve until the Company’s 2017 Annual Meeting of Stockholders and until their successors are duly elected and qualify. The directors currently serving in Class III are Kevin Landis and Kimun Lee.

• **Proposal Two** — the ratification of the selection of Tait, Weller & Baker LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2014.

• **Proposal Three** — if properly presented at the Annual Meeting, a stockholder proposal to terminate the Investment Management Agreement between the Company and FCM.

• **Proposal Four** — the transaction of any other business that may properly come before the meeting or any postponement of adjournment thereof.

**Q. HOW DOES THE BOARD OF DIRECTORS SUGGEST THAT I VOTE?**

**A.**

The Board of Directors unanimously recommends that you vote “FOR” the election of each of its two nominees FOR director and “FOR” the ratification of the selection of Tait, Weller & Baker LLP as the Company’s independent registered public accounting firm on the enclosed WHITE proxy card.

The Board of Directors unanimously recommends that you vote “AGAINST” the dissident stockholder’s proposal to terminate the Investment Management Agreement.

**Q. WHAT IS THE BOARD OF DIRECTORS POSITION REGARDING BULLDOG INVESTORS, LLC SOLICITING PROXIES FOR THE ANNUAL MEETING?**

A. Bulldog Investors, LLC, a dissident stockholder (“Bulldog”), has filed a proxy statement with the Securities and Exchange Commission which principally seeks to (i) elect a slate of two individuals nominated by affiliates of Bulldog as directors of the Company (the “Bulldog Nominees”), (ii) ratify the selection of Tait, Weller & Baker LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2014, (iii) terminate the investment management agreement between the Company and FCM (the “Termination Proposal”), and (iv) request that the Board consider authorizing a program to repurchase shares when they are trading at a discount from net asset value (the “Share Repurchase Proposal”).

The Board of Directors has determined that the Bulldog Nominees are not eligible for election at the Annual Meeting and the Share Repurchase Proposal is not eligible for consideration at the Annual Meeting, as the nominees and the proposal were not submitted in accordance with the Company’s Bylaws.

Any votes cast with respect to the Bulldog Nominees or the Share Repurchase Proposal will not be counted at the Annual Meeting, as those nominations and proposal will not be considered at the Annual Meeting. The exclusion of the Bulldog Nominees and the Share Repurchase Proposal at the Annual Meeting pursuant to our bylaws is not based on a specific ruling of any court and may be subject to challenge by Bulldog. Any votes cast with respect to the ratification of the independent registered public accounting firm or the Termination Proposal in the separate proxy statement from Bulldog Investors will be counted at the Annual Meeting. Shares represented by proxies solicited by Bulldog also will be counted as present for purposes of determining the existence of a quorum. The ratification of the selection of Tait, Weller & Baker LLP as the Company’s independent registered public accounting firm is already a Board proposal that will be considered at the Annual Meeting.

**Q. HOW CAN I VOTE?**

A. If you plan to attend the Annual Meeting and wish to vote in person, we will give you a ballot at the Annual MEETING. However, if your shares are held in the name of your broker, bank or other nominee, or “street name”, and you want to vote in person, you will need to obtain a legal proxy from the institution that holds your shares.

If your shares are held in your name, there are three ways for you to authorize a proxy:

- Sign, date and return the enclosed WHITE proxy card in the enclosed postage-paid envelope;
- Call 1-800-337-3503; or
- Log on to the Internet at [www.proxy-direct.com](http://www.proxy-direct.com) and follow the instructions at that site.

Telephone and Internet proxy authorizations will close at 11:59p.m. Eastern Time, on May 22, 2014. Unless you indicate otherwise on the WHITE proxy card, the persons named as your proxies will vote your shares: FOR the election of Messrs. Landis and Lee as Class III Directors; FOR the ratification of the selection of Tait, Weller & Baker LLP as the Company’s independent registered public accounting firm; and AGAINST the termination of the Investment Management Agreement.

If your shares are held in the name of your broker, bank or other nominee, or “street name”, you should receive separate instructions from the holder of your shares describing how to provide voting instructions.

Even if you plan to attend the Annual Meeting, we recommend that you authorize a proxy in advance as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

**Q. HOW PROXIES WILL BE VOTED?**

A. All proxies solicited by the Board of Directors that are properly executed and received at or prior to the Annual Meeting, and that are not revoked, will be voted at the Annual Meeting. Votes will be cast in accordance with the instructions marked on the enclosed WHITE proxy card. If no instructions are specified, the persons named as proxies will cast such votes FOR the election of each of its two nominees for director, FOR the ratification of the selection of Tait, Weller & Baker LLP as the Company's independent registered public accounting firm, and AGAINST the termination of the Investment Management Agreement. We know of no other matters to be properly presented at the Annual Meeting. However, if another proposal is properly presented at the Annual Meeting, the persons named as proxies on the enclosed WHITE proxy card will cast votes on each proposal in their sole discretion.

Proxies solicited by Bulldog will not be voted at the Annual Meeting with the respect to the Bulldog Nominees or the Share Repurchase Proposal, as neither the nominees nor the proposal may be properly brought before the Annual Meeting under the Company's Bylaws. Any votes cast with respect to the ratification of the independent registered public accounting firm or the Termination Proposal in the separate proxy statement from Bulldog Investors will be counted at the Annual Meeting.

**Q. CAN I REVOKE MY PROXY?**

A. Yes. At any TIME before it has been voted, you may revoke your proxy by:

• sending a letter revoking your proxy to the Secretary of the Company at our offices located at 150 Almaden Boulevard, Suite 1250, San Jose, CA 95113;

• properly executing and sending a later-dated proxy; or

• attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not revoke your proxy.

**Q. IF I HAVE ALREADY AUTHORIZED MY PROXY TO VOTE FOR BULLDOGS' NOMINEES OR IN FAVOR OF BULLDOGS' PROPOSALS, IS IT TOO LATE TO CHANGE MY MIND?**

No. To change your vote, simply sign, date and return the enclosed WHITE proxy card in the enclosed postage-paid envelope, or authorize a proxy to vote by telephone or via the Internet in accordance with the instructions in the WHITE proxy card. We strongly urge you to revoke any proxy card you may have returned to Bulldog. Only your latest dated proxy will count at the Annual Meeting.

**Q. WHAT CONSTITUTES A QUORUM?**

A. The presence, in person or by proxy, of holders of shares entitled to cast a majority of the votes entitled to be cast at the Annual Meeting constitutes a quorum for the purposes of the Annual Meeting. If YOU submit a properly executed proxy card, you will be considered part of the quorum. Abstentions and broker "non-votes" will be counted as present for purposes of determining a quorum. A broker non-vote is a vote that is not cast on a non-routine matter because the shares entitled to cast the vote are held in "street name", the broker lacks discretionary authority to vote the shares and the broker has not received voting instructions from the beneficial owner.

**Q. WHAT IS THE REQUIRED VOTE FOR APPROVAL OF EACH PROPOSAL PROPERLY PRESENTED AT THE ANNUAL MEETING?**

A. Proposal One. The election of Messrs. Landis and Lee as a Class III Directors requires the affirmative vote of a plurality of the votes cast at the Annual Meeting. Each share of common stock is entitled to one vote for each of the two directors to be elected at the Annual Meeting. For the purposes of Proposal One, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the election of Messrs. Landis and Lee.



Proposal Two. The ratification of the selection of Tait, Weller & Baker LLP as the Company's independent registered public accounting firm requires the affirmative vote of a majority of the votes cast at the Annual Meeting. Each share of common stock is entitled to one vote. For purposes of the vote on Proposal Two, abstentions and broker non-votes, if any, will not be counted as votes cast and will have no effect on the result of the vote.

Proposal Three. The termination of the Investment Management Agreement requires approval of the holders of a majority of the Company's outstanding voting securities. For purposes of this proposal, a "majority" of the outstanding voting securities means the vote of (i) 67% or more of the shares present at the Annual Meeting, if the holders of 50% or more of the outstanding voting securities of the Company are present or represented by proxy or (ii) more than 50% of the outstanding voting securities, whichever is less. For purposes of the vote on Proposal Three, abstentions and broker non-votes will be considered a vote against this proposal.

Q. WHAT IF OTHER MATTERS COME UP AT THE ANNUAL MEETING?

A. The Board of Directors does not know of any matters to be properly presented at the Annual Meeting OTHER than those referred to in this proxy statement. If other matters are properly presented at the meeting for consideration, and you properly authorize a proxy, the persons named as proxy holders will have the discretion to vote on those matters for you.

Q. WHO IS SOLICITING MY VOTE?

A. In this proxy statement, the Board of Directors is soliciting your vote for matters properly submitted for stockholder consideration at the Annual Meeting.

Q. WHO PAYS FOR THIS SOLICITATION OF PROXIES?

A. The expenses of preparing, printing and mailing the enclosed WHITE proxy card, the accompanying notice and this proxy statement, tabulation expenses, and all other costs, in connection with this solicitation of proxies will be borne by the Company. We may also reimburse banks, brokers and others for their reasonable expenses in forwarding proxy solicitation material to the BENEFICIAL owners of our shares. In order to obtain the necessary quorum at the meeting, andent:4%">Cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving beneficial interests in the relevant global security in DTC,

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and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear participant or Clearstream participant purchasing a beneficial interest in a global security from a participant will be credited during the securities settlement processing day immediately following the DTC settlement date and such credit of any transactions in beneficial interests in such global security settled during such processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash received in Euroclear or Clearstream as a result of sales of beneficial interests in a global security by or through a Euroclear participant or Clearstream participant to a participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

Neither we nor the Trustee (or any registrar or paying agent) will have any responsibility for the performance by DTC, Euroclear or Clearstream or any of the participants, indirect participants, Euroclear participants or Clearstream participants of their respective obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants whose DTC accounts are credited with interests in a global security.

DTC has informed us that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that DTC participants deposit with DTC. DTC also facilitates the post-trade settlement among DTC participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between DTC participants accounts, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ( DTCC ). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Indirect access to the DTC system is also available to others such as banks, brokers and dealers, trust companies and clearing corporations that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC participants are on file with the SEC.

Purchases of Notes under the DTC system must be made by or through DTC participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note is in turn to be recorded on the participants' and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the participant or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in Notes, except in the limited circumstances described below in which a global security will become exchangeable for note certificates registered in the manner described below.

The deposit of Notes with a custodian for DTC and their registration in the name of Cede effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Notes; DTC's records reflect only the identity of the participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Principal and interest payments on the Notes will be made to DTC by wire transfer of immediately available funds. DTC's practice is to credit participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name and will be the responsibility of such participant and not of DTC or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is our

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responsibility, disbursement of those payments to participants will be the responsibility of DTC, and disbursement of those payments to the beneficial owners will be the responsibility of participants and indirect participants. Neither we nor the Trustee (or any registrar or paying agent) will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global securities or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be accurate, but we assume no responsibility for the accuracy thereof.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to us.

The global security will terminate and interests in it will be exchanged for physical certificates representing the Notes only in the following situations:

DTC or any successor depository notifies us that it is unwilling or unable to continue as depository for global securities or ceases to be a clearing agency registered under the Exchange Act and we notify the Trustee that we are unable to locate a qualified successor;

an event of default, as described under Description of the Notes Events of Default in this prospectus supplement, under the Notes has occurred and is continuing, or

we, in our sole discretion and subject to the procedures of the depository, determine that any or all of the Notes will no longer be represented by global securities.

In those situations, the Notes represented by a global security that is exchangeable pursuant to this paragraph will be exchangeable for note certificates registered in the names directed by the depository, with the same terms and in authorized denominations. We expect that these instructions will be based upon directions received by the depository from its participants with respect to ownership of beneficial interests in the global security certificates.

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### **MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

#### **General**

This section summarizes the material U.S. tax consequences to holders of the Notes. However, the discussion is limited in the following ways:

The discussion only covers you if you buy your Notes in the initial offering of the Notes at the initial offering price.

The discussion only covers you if you hold your Notes as a capital asset (generally, for investment purposes), your functional currency is the U.S. dollar (if you are a U.S. holder) and you do not have a special tax status.

The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of the Notes, such as your holding the Notes in connection with a hedging, straddle or conversion transaction. We suggest that you consult your tax advisor about the consequences of holding the Notes in your particular situation.

The discussion does not cover you if you are a partner in a partnership (or an entity treated as a partnership for U.S. tax purposes). If a partnership holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding the Notes, we suggest that you consult your tax advisor.

The discussion is based on current law. Changes in the law may change the tax treatment of the Notes.

The discussion does not cover state, local or foreign law, and, except for the U.S. federal estate tax consequences discussed below with respect to Non-U.S. holders, does not cover any U.S. federal tax consequences other than income tax consequences.

This discussion does not cover the Medicare tax that may be imposed on the net investment income of U.S. holders that are individuals, estates or trusts.

We have not requested a ruling from the Internal Revenue Service ( IRS ) on the tax consequences of owning the Notes.

As a result, the IRS could disagree with portions of this discussion.

**If you are considering buying Notes, we suggest that you consult your tax advisors about the tax consequences of holding the Notes in your particular situation.**

#### **Classification of the Notes**

The determination of whether a security, such as a Note, should be classified as indebtedness or equity for United States federal income tax purposes requires a judgment based on all relevant facts and circumstances. There is no statutory, judicial or administrative authority that directly addresses the United States federal income tax treatment of securities similar to the Notes, and, as noted above, no rulings have been sought or are expected to be sought from the IRS. In connection with the issuance of the Notes, Hogan Lovells US LLP, special tax counsel to CFC, is of the opinion that, under current law and assuming full compliance with the terms of the Indenture and other relevant documents, and based on the facts and assumptions contained in its opinion, as well as representations relied upon in rendering the opinion, the Notes will be classified as indebtedness for United States federal income tax purposes (although there is no controlling authority directly on point). We agree, and by acquiring an interest in a Note each beneficial owner of a Note will be deemed to agree, to treat the Notes as indebtedness

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for United States federal income tax purposes, and the remainder of this discussion assumes this treatment. You should consult your own tax advisors regarding the tax consequences that will arise if the Notes are not treated as indebtedness for United States federal income tax purposes.

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### **Tax Consequences to U.S. Holders**

This section applies to you if you are a U.S. holder. A U.S. holder is a beneficial owner of the Notes that is, for U.S. federal income tax purposes:

an individual U.S. citizen or resident alien;

a corporation or entity taxable as a corporation for U.S. federal income tax purposes that was created under U.S. law (federal or state);

an estate whose worldwide income is subject to U.S. federal income tax; or

a trust if a court within the U.S. is able to exercise primary supervision over the administration of the trust and if one or more U.S. persons have the authority to control all substantial decisions of the trust, or if it has validly elected to be treated as a U.S. person.

#### *Interest Income and Original Issue Discount*

Under applicable Treasury regulations, a remote contingency that stated interest will not be timely paid will be ignored in determining whether a debt instrument is issued with original issue discount (OID). We believe that the likelihood of our exercising our option to extend payments on the Notes is remote within the meaning of the applicable Treasury regulations because during any extension period we may not declare or pay any dividend or interest on, or principal payment of, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our members' subordinated certificates. Based on the foregoing, we intend to take the position that the Notes are debt instruments for U.S. federal income tax purposes that will not be considered to be issued with OID at the time of their original issuance. Under this treatment, each U.S. holder of Notes would include in gross income the stated interest on the Notes in accordance with that U.S. holder's method of tax accounting.

Under the applicable Treasury regulations, if the option to extend any payment of interest was determined not to be remote, or if we exercised that option, the Notes would be treated as issued with OID at the time of issuance or at the time of that exercise, as the case may be, then, all stated interest on the Notes would thereafter be treated as OID as long as the Notes remained outstanding. In that event, all of a U.S. holder's taxable interest income relating to the Notes would constitute OID that would have to be included in income on an economic accrual basis before the receipt of the cash attributable to the interest, regardless of that U.S. holder's method of tax accounting, and actual distributions of stated interest would not be reported as taxable income. Consequently, a holder of Notes would be required to include in gross income OID even though we do not make actual payments on the Notes during an extension period.

Our determination that these contingencies are remote is binding on you unless you disclose your contrary position in the manner required under applicable Treasury Regulations. Our determination is not, however, binding on the IRS. The IRS has not defined the meaning of the term remote as used in the applicable Treasury regulations in any binding ruling or interpretation, and it is possible that the IRS could take a position contrary to the interpretation in this prospectus.

We believe that the Notes are a variable rate debt instrument within the meaning of the relevant OID regulations. Further, we intend to set the rate for the fixed-rate period and the floating-rate period under the Notes in a manner that will satisfy the tests under those regulations to avoid the existence of OID under the Notes upon issuance.

#### *Sale or Retirement of the Notes*

On your sale or retirement of your Notes:

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You will have taxable gain or loss equal to the difference between the amount received by you and your tax basis in the Notes.

Assuming that we do not exercise our option to extend payments of interest on the Notes and that the Notes are not deemed to be issued with OID, your tax basis in the Notes generally is your cost. If the Notes are deemed to be issued with OID, a U.S. holder's tax basis in the Notes generally will be its initial purchase price, increased by OID previously includible in that U.S. holder's gross income to the date of disposition and decreased by payments received on the Notes since and including the date that the Notes were deemed to be issued with OID.

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Your gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if you held the Notes for more than one year. For non-corporate U.S. holders, net long-term capital gains are generally taxed at preferential rates. The deductibility of capital losses is subject to certain limitations.

If you sell the Notes between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the Notes but has not yet been paid by the sale date. That amount is treated as ordinary interest income and not as sale proceeds.

### *Information Reporting and Backup Withholding*

Under the tax rules concerning information reporting to the IRS:

Assuming you hold your Notes through a broker or other intermediary, the intermediary must provide information to the IRS concerning interest (including OID, if any) and proceeds from the retirement or sale proceeds on your Notes, unless an exemption applies.

Similarly, unless an exemption applies, you must provide the intermediary with your taxpayer identification number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

If you are subject to these requirements but do not comply, the intermediary must apply backup withholding on all amounts payable to you on the Notes (including principal payments). If the intermediary withholds, you may claim the withheld amount as a credit against your federal income tax liability if you provide the required information to the IRS.

All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

### **Tax Consequences to Non-U.S. Holders**

This section applies to you if you are a Non-U.S. holder. A Non-U.S. holder is a beneficial owner of the Notes, other than a partnership or other entity treated as a partnership for U.S. federal income tax purposes, that is not a U.S. holder.

#### *Withholding Taxes*

Generally, subject to backup withholding and FATCA withholding discussed below, payments of principal and interest (including OID, if any) on the Notes will not be subject to U.S. withholding taxes.

However, for the exemption from withholding taxes to apply to you, you must meet one of the following requirements:

You provide a completed Form W-8BEN (or substitute form) to the bank, broker or other intermediary through which you hold your Notes. The Form W-8BEN contains your name, address and a statement that you are the beneficial owner of the Notes and that you are a Non-U.S. holder.

You hold your Notes directly through a qualified intermediary, and the qualified intermediary has sufficient information in its files indicating that you are not a U.S. holder. A qualified intermediary is a bank, broker or other intermediary that (1) is either a U.S. or non-U.S. entity, (2) is acting out of a non-U.S. branch or office and (3) has signed an agreement with the IRS providing that it will administer all or part of the U.S. tax withholding rules under specified procedures.



You are entitled to an exemption from withholding tax on interest under a tax treaty between the U.S. and your country of residence. To claim this exemption, you must generally complete Form W-8BEN

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and claim this exemption on the form. In some cases, you may instead be permitted to provide documentary evidence of your claim to the intermediary, or a qualified intermediary may already have some or all of the necessary evidence in its files.

The interest income on the Notes is effectively connected with the conduct of your trade or business in the U.S., and is not exempt from U.S. tax under a tax treaty. To claim this exemption, you must complete Form W-8ECI and be subject to U.S. federal income tax as described below under U.S. Trade or Business.

Even if you meet one of the above requirements, interest (including OID, if any) paid to you will be subject to withholding tax under any of the following circumstances:

The withholding agent or an intermediary knows or has reason to know that you are not entitled to an exemption from withholding tax. Specific rules apply for this test.

The IRS notifies the withholding agent that information that you or an intermediary provided concerning your status is false.

An intermediary through which you hold the Notes fails to comply with the procedures necessary to avoid withholding taxes on the Notes. In particular, an intermediary is generally required to forward a copy of your Form W-8BEN (or other documentary information concerning your status) to the withholding agent for the Notes. However, if you hold your Notes through a qualified intermediary or if there is a qualified intermediary in the chain of title between you and the withholding agent for the Notes the qualified intermediary is not generally required to forward this information to the withholding agent in order to avoid withholding taxes on the Notes.

You are a bank making a loan in the ordinary course of business. In this case, you will be exempt from withholding taxes only if you are eligible for a treaty exemption or if the interest income is effectively connected with your conduct of a trade or business in the U.S., as discussed above.

Payments of interest (including OID, if any) made to you will generally be reported to the IRS and to you on Form 1042-S. However, this reporting does not apply to you if you hold your Notes directly through a qualified intermediary and the applicable procedures are complied with.

The rules regarding withholding are complex and vary depending on your individual situation. They are also subject to change. In addition, special rules apply to certain types of Non-U.S. holders of the Notes, including partnerships, trusts and other entities treated as pass-through entities for U.S. federal income tax purposes. We suggest that you consult with your tax advisor regarding the specific methods for satisfying these requirements.

*Sale or Retirement of Notes*

If you sell the Notes or the Notes are redeemed, you will not be subject to federal income tax on any gain unless one of the following applies:

The gain is connected with a trade or business that you conduct in the U.S.

You are an individual, you were present in the U.S. for at least 183 days during the year in which you disposed of the Notes, and certain other conditions are satisfied.

The gain represents accrued interest, in which case the rules for interest would apply.

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### *U.S. Trade or Business*

If you hold your Notes in connection with a trade or business that you are conducting in the U.S. and, if required by an applicable income tax treaty, you maintain a U.S. permanent establishment to which the holding of the Notes is attributable:

Any interest (including OID, if any) on the Notes, and any gain from disposing of the Notes, generally will be subject to U.S. federal income tax as if you were a U.S. holder.

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If you are a corporation, you may also be subject to the branch profits tax on your earnings that are connected with your U.S. trade or business (subject to certain adjustments), including earnings from the Notes. This tax generally is imposed at a rate of 30%, but may be reduced or eliminated by an applicable income tax treaty.

### *Estate Taxes*

If you are an individual, your Notes will not be subject to U.S. estate tax when you die. However, this rule only applies if, at your death, payments on the Notes were not connected to a trade or business that you were conducting in the U.S.

### *Information Reporting and Backup Withholding*

U.S. rules concerning information reporting and backup withholding are described above. These rules apply to Non-U.S. holders as follows:

Payments of principal and interest (including OID, if any) you receive will be automatically exempt from the usual rules if you are a Non-U.S. holder exempt from withholding tax on interest, as described above. The exemption does not apply if the withholding agent or an intermediary knows or has reason to know that you should be subject to the usual information reporting or backup withholding rules. In addition, as described above, interest payments made to you may be reported to the IRS on Form 1042-S.

Sale proceeds you receive on a sale of your Notes through a broker may be subject to information reporting and/or backup withholding if you are not eligible for an exemption. In particular, information reporting and backup withholding may apply if you use the U.S. office of a broker, and information reporting (but not backup withholding) may apply if you use the foreign office of a broker that has certain connections to the U.S. In general, you may provide one of the forms described under *Withholding Taxes* to claim an exemption from information reporting and backup withholding on a sale. We suggest that you consult your tax advisor concerning information reporting and backup withholding on a sale.

### *Withholdable Payments to Foreign Financial Entities and Other Foreign Entities*

The Foreign Account Tax Compliance Act ( *FATCA* ) will impose a U.S. federal withholding tax of 30% on certain payments (including certain interest and principal payments) to foreign financial institutions and other non-U.S. persons that fail to comply with information reporting requirements in respect of their direct and indirect U.S. shareholders and/or U.S. accountholders. However, under recently issued Treasury Regulations, the FATCA withholding tax described above does not apply to payments on, and gross proceeds from the disposition of, obligations outstanding on January 1, 2014. Thus, it is expected that the Notes generally would not be subject to such provisions. However, it is possible that a significant modification of such Notes occurring after January 1, 2014 could result in the Notes being treated as newly issued and therefore subject to FATCA. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implication of these withholding provisions on their investment in the Notes.

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**EUROPEAN UNION TAX REPORTING AND WITHHOLDING**

Directive 2003/48/EC (the Directive ) of the Council of the European Union, relating to the taxation of savings income, became effective on July 1, 2005. Under the Directive, if a paying agent for interest on a debt claim is resident in one member state of the European Union and an individual who is the beneficial owner of the interest is a resident of another member state, then the former member state is required to provide information (including the identity of the recipient) to authorities of the latter member state. Paying agent is defined broadly for this purpose and generally includes any agent of either the payor or payee. However, for a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. A number of non-EU countries and territories have adopted similar measures with effect from the same date.

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**Table of Contents****UNDERWRITING**

The underwriters named below have severally agreed to purchase, and CFC has agreed to sell to them, severally, the principal amounts of the Notes indicated below. CFC has entered into an underwriting agreement with the underwriters for whom J.P. Morgan Securities LLC, RBC Capital Markets, LLC and RBS Securities Inc. are acting as representatives. The underwriting agreement, dated the date hereof, provides that the several obligations of the underwriters are subject to certain conditions as therein set forth. The underwriters will be obligated to purchase all the Notes being underwritten or sold by them if any of the Notes are purchased.

| <b>Underwriter</b>                    | <b>Principal<br/>Amount of the<br/>Notes</b> |
|---------------------------------------|--|
| J.P. Morgan Securities LLC            | \$ 106,667,000                               |
| RBC Capital Markets, LLC              | 106,667,000                                  |
| RBS Securities Inc.                   | 106,667,000                                  |
| KeyBanc Capital Markets Inc.          | 13,334,000                                   |
| Mitsubishi UFJ Securities (USA), Inc. | 13,333,000                                   |
| Mizuho Securities USA Inc.            | 13,333,000                                   |
| PNC Capital Markets LLC               | 13,333,000                                   |
| Scotia Capital (USA) Inc.             | 13,333,000                                   |
| U.S. Bancorp Investments, Inc.        | 13,333,000                                   |
| <b>Total</b>                          | <b>\$ 400,000,000</b>                        |

CFC has been advised by the underwriters that the underwriters propose to offer the Notes to the public initially at the offering price set forth on the cover of this prospectus supplement and may offer the Notes to certain dealers at such price less a selling concession of 0.60% of the principal amount of the Notes. The underwriters may allow and each such dealer may reallocate to other dealers a concession not exceeding 0.25% of the principal amount of the Notes. After the initial public offering, such public offering price and such concessions and reallocations may be changed.

The following table shows the underwriting discounts and commissions to be paid to the underwriters by CFC in connection with the offering:

|  | <b>Per Note</b> | <b>Total</b> |
|--|-----------------|--------------|
| Underwriting discounts and commissions payable by us | 1.00%           | \$ 4,000,000 |

Expenses associated with this offering, to be paid by CFC, are estimated to be \$300,000.

In connection with the offering made hereby, the underwriters may purchase and sell such Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the underwriters in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Notes, and short positions created by the underwriters involve the sale by the underwriters of a greater aggregate principal amount of the Notes than they are required to purchase from CFC. The underwriters also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the Notes sold in the offering may be reclaimed by the underwriters if such Notes are repurchased by the underwriters in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Notes, which may be higher than the price that might otherwise prevail in the open market. These activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Notes are a new issue of securities with no established trading market. CFC has been advised by the representatives that they intend to make a market in the Notes, but are not obligated to do so, and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes.



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CFC has agreed to indemnify the underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of any of these liabilities.

In the ordinary course of their respective businesses, the underwriters and their affiliates have engaged, and may in the future engage, in commercial banking and/or investment banking transactions (including acting as underwriters, initial purchasers or dealers with respect to other securities offerings) with CFC and its affiliates, for which they have received, and in the future expect to receive, customary compensation. In addition, affiliates of the underwriters from time to time have acted or in the future may continue to act as lenders to CFC and its affiliates, for which they have received or expect to receive customary compensation.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of CFC or its affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

It is expected that delivery of the Notes will be made against payment therefor on or about April 25, 2013 which is the fifth trading day following the date hereof (such settlement cycle being referred to as T+5). Purchasers of Notes should note that the ability to settle secondary market trades of the Notes effected on the date of pricing and the next succeeding business day may be affected by the T+5 settlement. Accordingly, purchasers who wish to trade the Notes on the date of this prospectus supplement or the following day will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own legal advisors.

### **Notice to Prospective Investors in the European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by this prospectus supplement to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in the Relevant Member State:

at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant underwriter or underwriters nominated by us for any such offer; or

at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of the Notes shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Relevant Member State. For the purposes of this provision, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto including that Directive as amended by the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State in question), and includes any relevant implementing measure in the Relevant Member State in question; and the expression 2010 PD Amending Directive means Directive 2010/73/EU.





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The seller of the Notes has not authorized and does not authorize the making of any offer of the Notes through any financial intermediary on its behalf, other than offers made by the underwriters with a view to the final placement of the Notes as contemplated in this prospectus supplement. Accordingly, no purchaser of the Notes, other than the underwriters, is authorized to make any further offer of the Notes on behalf of the seller or the underwriters.

**Notice to Prospective Investors in the United Kingdom**

Each underwriter has advised us that it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ( FSMA )) received by it in connection with the issue or sale of any Notes included in this offering:

to persons outside the United Kingdom (and not located in, nor residents or citizens of any excluded jurisdictions);

to persons having professional experience in matters relating to investments falling within the definition investment professionals in Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ( Order );

to high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order; or

a person to whom an invitation or inducement to engage in investment activity may be communicated without contravening section 21 of FSMA,

and each underwriter has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes included in this offering in, from or otherwise involving the United Kingdom.

See Plan of Distribution on page 28 of the accompanying prospectus for further information regarding the distribution of the Notes.

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**LEGAL MATTERS**

The validity of the Notes offered hereby and certain United States tax matters relating to the Notes will be passed upon for CFC by Hogan Lovells US LLP, Columbia Square, 555 Thirteenth Street, NW, Washington, DC. The underwriters will be represented by Hunton & Williams LLP, 200 Park Avenue, New York, New York 10166. Hunton & Williams from time to time has performed and may perform legal services for CFC.

**EXPERTS**

The consolidated financial statements incorporated in this prospectus supplement by reference from National Rural Utilities Cooperative Finance Corporation's Annual Report on Form 10-K for the year ended May 31, 2012 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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**PROSPECTUS**

**National Rural Utilities  
Cooperative Finance Corporation  
Senior Debt Securities  
Subordinated Debt Securities**

We plan to offer from time to time senior debt securities and subordinated debt securities. We will provide the specific terms of these senior debt securities and subordinated debt securities and the offering in one or more supplements to this prospectus. A prospectus supplement may also add, change or update information contained in this prospectus. You should read this prospectus and any supplements carefully before you invest.

We may sell these securities on a continuous or delayed basis directly, through agents, dealers or underwriters as designated from time to time, or through a combination of these methods. We reserve the sole right to accept, and together with any agents, dealers and underwriters, reserve the right to reject, in whole or in part, any proposed purchase of securities. For additional information on the method of sale, refer to the section entitled Plan of Distribution below. The names of any underwriters, dealers or agents involved in the sale of any securities, the specific manner in which they may be offered and any applicable commissions or discounts will be set forth in the prospectus supplement covering the sales of those securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these senior debt securities and subordinated debt securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Investing in the senior debt securities and subordinated debt securities involves risks. See Risk Factors on page 2.**

This prospectus may not be used to consummate sales of senior debt securities or subordinated debt securities unless accompanied by a prospectus supplement.

**The date of this prospectus is November 14, 2011**

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**ABOUT THIS PROSPECTUS**

To understand the terms of the senior debt securities and subordinated debt securities (the securities) offered by this prospectus, you should carefully read this prospectus, any prospectus supplement or pricing supplement. You should also read the documents referred to under the heading Where You Can Find More Information and Incorporation By Reference for information on National Rural Utilities Cooperative Finance Corporation (CFC or the Company, also referred to as we, us and our), including its financial statements. Certain capitalized terms used in this prospectus are defined elsewhere in this prospectus.

This prospectus is part of a registration statement that we have filed with the U.S. Securities and Exchange Commission (the SEC), using a shelf registration procedure. Under this procedure, we may offer and sell the securities from time to time. Each time we offer the securities, we will provide you with a prospectus supplement or pricing supplement that will describe the specific amounts, prices and terms of the securities being offered, including the names of any underwriters, dealers or agents, the compensation of any underwriters and the net proceeds to us. The prospectus supplement may contain information about any material U.S. federal income tax considerations relating to the securities covered by the prospectus supplement. The prospectus supplement or pricing supplement may also add, update or change information contained in this prospectus.

We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted.

**RISK FACTORS**

Investing in the securities involves significant risks. Before you invest in the securities, in addition to the other information contained in this prospectus and in any prospectus supplement, you should carefully consider the risks and uncertainties discussed under Item 1A, Risk Factors, or otherwise discussed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2011 and in other filings we may make from time to time with the SEC after the date of the registration statement of which this prospectus is a part.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the Public Reference Room. Our SEC filings are also available to the public at the SEC's website at <http://www.sec.gov>.

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As permitted by SEC rules, this prospectus may not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, exhibits and schedules for more information about us and the securities. The registration statement, exhibits and schedules are available through the SEC's public reference room or website.

### **INCORPORATION BY REFERENCE**

The SEC allows us to incorporate by reference into this prospectus information we have filed with the SEC, which means that we can disclose important information to you by referring you to those filed documents. The information incorporated by reference is an important part of this prospectus, and the information we subsequently file with the SEC will automatically update and supersede the information in this prospectus. Absent unusual circumstances, we will have no obligation to amend this prospectus, other than filing subsequent information with the SEC. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) until this offering is completed:

Annual Report on Form 10-K for the year ended May 31, 2011 (filed August 19, 2011) (the 2011 Form 10-K);

Quarterly Report on Form 10-Q for the quarter ended August 31, 2011 (as filed on October 14, 2011 and as amended on November 4, 2011) (the 2012 Q1 Form 10-Q); and

Current Reports on Form 8-K, dated July 21, 2011 (filed July 25, 2011), July 20, 2011 (filed July 28, 2011), September 19, 2011 (filed September 20, 2011), and October 21, 2011 (filed October 21, 2011).

We are not incorporating by reference any document or information that is deemed to be furnished and not filed in accordance with SEC rules.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or any other subsequently filed document that is deemed to be incorporated by reference into this prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may request a copy of these filings from the SEC as described under Where You Can Find More Information. You may also request, at no cost (other than an exhibit to these filings, or an exhibit to any other filings incorporated by reference into this registration statement, unless we have incorporated that exhibit by reference into this registration statement), a copy of these filings by writing to or telephoning us at the following address:

National Rural Utilities Cooperative Finance Corporation

20701 Cooperative Way

Dulles, VA 20166-6691

(703) 467-1800

Attn: J. Andrew Don

Senior Vice President and Treasurer

These filings are also available through the Financial Reporting subsection of the Investor Relations section of our website: [www.nrucfc.coop](http://www.nrucfc.coop). Information on our website does not constitute a part of this prospectus.

**You should rely only on the information contained or incorporated by reference in this prospectus, any prospectus supplement or pricing supplement. We have not authorized anyone, including any salesman or broker, to provide you with different information. You should not assume that the information contained or incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front cover of the document in question.**

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**FORWARD-LOOKING STATEMENTS**

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This prospectus and the documents incorporated by reference in this prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act.

Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as intend, plan, may, should, will, project, estimate, anticipate, believe, expect, opportunity and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan volume, the adequacy of the loan loss allowance, operating income and expenses, leverage and debt to equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance could materially differ. Factors that could cause future results to vary from current expectations include, but are not limited to, general economic conditions, legislative changes, governmental monetary and fiscal policies, changes in tax policies, changes in interest rates, demand for our loan products, lending competition, changes in the quality or composition of our loan and investment portfolios, changes in accounting principles, policies or guidelines, changes in our ability to access external financing, valuations of collateral supporting impaired loans, initial valuations of assets received in foreclosure, non-performance of counterparties to our derivative agreements, and other economic and governmental factors affecting our operations. Some of these and other factors are discussed in our annual and quarterly reports previously filed with the SEC.

Although we believe that the expectations reflected in such forward-looking statements are based on current reasonable assumptions, actual results and performance could differ materially from those set forth in the forward-looking statements due to a variety of known and unknown factors. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect new information, future events or changes in expectations after the date on which the statement is made.

**THE COMPANY**

CFC is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC's principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (RUS) of the United States Department of Agriculture. CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists solely of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. As a member-owned cooperative, CFC has no publicly held equity securities outstanding. CFC funds its activities primarily through a combination of publicly and privately held debt securities and member investments. CFC's objective is to offer its members cost-based financial products and services consistent with sound financial management and is not to maximize net income. The Company's headquarters are located at 20701 Cooperative Way, Dulles, VA 20166-6691 and its telephone number is (703) 467-1800.



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Rural Telephone Finance Cooperative ( RTFC ) is a cooperative association originally incorporated in South Dakota in 1987 and reincorporated as a member-owned cooperative association in the District of Columbia in 2005. RTFC 's principal purpose is to provide and arrange financing for its rural telecommunications members and their affiliates. As a member-owned cooperative, RTFC 's objective is to offer its members cost-based financial products and services consistent with sound financial management and is not to maximize net income. RTFC 's membership consists of a combination of not-for-profit entities and for-profit entities. RTFC 's results of operations and financial condition are consolidated with those of CFC. RTFC is headquartered with CFC in Dulles, Virginia. RTFC is a taxable cooperative that pays income tax based on its net income, excluding patronage-sourced net earnings allocated to its patrons, as permitted under Subchapter T of the Internal Revenue Code.

National Cooperative Services Corporation ( NCSC ) was incorporated in 1981 in the District of Columbia as a member-owned cooperative association. The principal purpose of NCSC is to provide financing to members of CFC, entities eligible to be members of CFC and the for-profit and non-profit entities that are owned, operated or controlled by, or provide significant benefit to Class A, B and C members of CFC. As a member-owned cooperative, NCSC 's objective is to offer its members cost-based financial products and services consistent with sound financial management and is not to maximize net income. NCSC 's membership consists of CFC and distribution systems that are members of CFC or are eligible for such membership. NCSC 's results of operations and financial condition are consolidated with those of CFC.

NCSC is headquartered with CFC in Dulles, Virginia. NCSC is a taxable cooperative that, to date, has not allocated its patronage-sourced net earnings to members. Thus, NCSC pays income tax on the full amount of its net income.

At August 31, 2011, after taking into consideration systems that are members of both CFC and NCSC and eliminating memberships between CFC, RTFC and NCSC, our consolidated membership totaled 1,460 members and 258 associates. CFC 's membership includes 834 distribution systems, 71 power supply systems, 489 telecommunication members, 65 statewide and regional associations, and one national association of cooperatives. CFC 's members and associates are located in 49 states, the District of Columbia and two U.S. territories.

### **RATIO OF EARNINGS TO FIXED CHARGES**

The ratios of earnings to fixed charges for the Company for each of the five years ended May 31, 2011, 2010, 2009, 2008 and 2007 are included in Exhibit 12 to the annual report on Form 10-K for the year ended May 31, 2011, and are incorporated by reference into this prospectus. The ratios of earnings to fixed charges for the Company for the three months ended August 31, 2011 and 2010 are included in the August 31, 2011 Form 10-Q, and are also incorporated by reference into this prospectus.

### **USE OF PROCEEDS**

Unless otherwise specified in a prospectus supplement, the net proceeds from the sale of the securities will be added to the general funds of CFC and will be available for loans and for use in connection with the retirement of debt.

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**DESCRIPTION OF SENIOR DEBT SECURITIES**

The following description summarizes the general terms and provisions that may apply to the senior debt securities. Each prospectus supplement or pricing supplement will state the particular terms of the senior debt securities and the extent, if any, to which the general provisions may apply to the senior debt securities included in the supplement.

The senior debt securities will be issued under a senior indenture dated as of December 15, 1987, as supplemented by a First Supplemental senior indenture dated as of October 1, 1990, between CFC and U.S. Bank National Association, as successor trustee (as so supplemented, the senior indenture ). The senior indenture does not limit the aggregate principal amount of senior debt securities which may be issued under it. Additionally, CFC may, without the consent of the holders of the senior debt securities of any series, re-open a previous series of senior debt securities and issue additional senior debt securities of the same series, which additional senior debt securities will have the same terms as the original series except for the issue price, issue date and, in some cases, the first interest payment date. CFC will not issue any additional senior debt securities of the same series unless the additional senior debt securities will be fungible with all senior debt securities of the same series for United States Federal income tax purposes.

The statements in this prospectus concerning the senior indenture, one or more supplemental senior indentures and the senior debt securities do not purport to be complete and are qualified in their entirety by reference to the senior indenture and any supplemental senior indenture, each of which is or will be incorporated by reference into this prospectus.

**General**

The senior debt securities will be issued in fully registered form without coupons unless the applicable prospectus supplement provides for an issuance to be in a form registered as to principal only with or without coupons or in bearer form with or without coupons or any combination thereof. Senior debt securities may also be issued in temporary or definitive global bearer form. Unless specified otherwise in the prospectus supplement or pricing supplement, all senior debt securities will be denominated in U.S. dollars, registered senior debt securities will be issued in denominations of \$1,000 and multiples of \$1,000 and bearer senior debt securities will be issued in denominations of \$5,000 and multiples of \$5,000. (Sections 201 and 302)

The senior debt securities will be direct, unsecured obligations of CFC. CFC also issues secured senior debt in the form of collateral trust bonds and privately placed notes, secured by a pledge of member loans. At August 31, 2011, CFC had \$5,525 million in aggregate principal amount of collateral trust bonds and \$1,436 million of senior secured notes outstanding.

If any of the senior debt securities are offered in a foreign currency or currency unit or if principal of, any premium or any interest on any of the senior debt securities is payable in any foreign currency or currency unit, the applicable prospectus supplement will describe the restrictions, elections, specific terms and other information relative to those senior debt securities.

CFC may issue senior debt securities in one or more series with the same or various maturities at or above par or with an original issue discount. Original issue discount securities bearing no interest or interest at a rate which at the time of issuance is below market rates will be sold at a discount (which may be substantial) below their stated principal amount. See disclosure regarding taxation contained in the relevant prospectus supplement for a discussion of certain federal income tax considerations with respect to any original issue discount securities.

The prospectus supplement or pricing supplement relating to the particular series of senior debt securities being offered will specify the amounts, prices and terms of such securities. These terms may include:

the title of and the limit on the aggregate principal amount of senior debt securities to be issued;

the percentage of their principal amount at which the senior debt securities will be sold;

the date or dates on which the senior debt securities will mature;



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the annual rate or rates (which may be fixed or variable) or the method of determining any rate or rates at which the senior debt securities will bear interest;

the date or dates from which such interest shall accrue and the date or dates at which interest will be payable;

the place where payments may be made on the senior debt securities;

any redemption or sinking fund terms;

the denominations in which the senior debt securities will be issuable, if other than \$1,000 and any integral multiple thereof (if registered) or \$5,000 and any integral multiple thereof (if bearer);

the principal amount of original issue discount senior debt securities payable upon acceleration;

the means of satisfaction and discharge of the senior indenture with respect to the senior debt securities;

if the amount payable in respect of principal of or any premium or interest on any of such senior debt securities may be determined with reference to an index or other fact or event ascertainable outside the indenture, the manner in which the amounts will be determined;

if other than the currency of the United States, the currency, currencies or currency unit or units in which the payment of principal of and any premium and interest on such senior debt securities will be made;

if other than the principal amount of the senior debt securities, the portion of the principal amount of the senior debt securities payable upon declaration of acceleration of the maturity;

if the principal of or premium or interest on the senior debt securities are to be payable in securities or other property, the type and amount of securities or other property, or the method of determining the amount, and the terms and conditions of the election;

the terms, if any, on which senior debt securities may be converted into or exchanged for securities of CFC or any other person;

the obligations or instruments, if any, considered eligible obligations in respect of senior debt securities denominated in a currency other than dollars or in a composite currency, and any additional or alternative provisions for the reinstatement of CFC's indebtedness in respect of the senior debt securities after their satisfaction and discharge;

if either CFC or the holders of senior debt securities may elect payment in a currency, currencies or currency unit or units other than that in which the senior debt securities are stated to be payable, then the period or periods within which, and the terms upon which, the election may be made and, if the amount of those payments may be determined with reference to an index based on a currency, currencies or currency unit or units, other than that in which the senior debt securities are stated to be payable, then the manner in which such amounts shall be determined;

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whether the senior debt securities will be issued as registered senior debt securities, in a form registered as to principal only with or without coupons, or as bearer senior debt securities including temporary and definitive global form, or any combination thereof and applicable exchange provisions;

whether CFC will pay additional amounts to any holder of senior debt securities who is not a United States person (as defined in the disclosure relating to tax matters contained in the relevant prospectus supplement) in respect of any tax, assessment or governmental charge required to be withheld or deducted and whether CFC will have the option to redeem the applicable senior debt securities rather than pay additional amounts;

the applicability to the series of the senior indenture defeasance provisions;

whether the covenants described below under **Restriction on Indebtedness** will apply to the senior debt securities; and

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any limitations on the rights of the holders of senior debt securities to transfer or exchange or to obtain the registration of transfer of senior debt securities, and the amount or terms of a service charge if any for the registration of transfer or exchange of senior debt securities;

any changes or additions to the events of default or covenants described in this prospectus;

any other terms of the senior debt securities not inconsistent with the provisions of the senior indenture. (Section 301)

### **Exchange, Registration and Transfer**

Unless otherwise specified in the applicable prospectus supplement, registered senior debt securities of any series that are not global senior debt securities will be exchangeable for other registered senior debt securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations. In addition, if senior debt securities of any series are issuable as both registered senior debt securities and bearer senior debt securities, the holder may choose, upon written request and subject to the terms of the senior indenture, to exchange bearer senior debt securities and the appropriate related coupons of that series into registered senior debt securities of the same series of any authorized denominations and of a like aggregate principal amount and tenor. Bearer senior debt securities with attached coupons surrendered in exchange for registered senior debt securities between a regular record date or a special record date and the relevant interest payment date must be surrendered without the coupon relating to that interest payment date and interest will not be payable on that interest payment date in respect of the registered senior debt security issued in exchange for that bearer debt security. The interest will be payable only to the holder of that coupon when due in accordance with the terms of the senior indenture. Bearer senior debt securities will not be issued in exchange for registered senior debt securities. No service charge will be made for any registration of transfer or exchange of the senior debt securities but CFC may require payment of a sum sufficient to cover any applicable tax. (Section 305)

You may present senior debt securities for exchange as provided above. In addition, you may present registered senior debt securities for registration of transfer together with the duly executed form of transfer at the office of the security registrar or at the office of any transfer agent designated by CFC for that purpose with respect to any series of senior debt securities referred to in an applicable prospectus supplement. The security registrar or the transfer agent will effect the transfer or exchange upon being satisfied with the documents of title and identity of the person making the request. CFC has appointed U.S. Bank National Association as security registrar. (Section 305) If a prospectus supplement refers to any transfer agents (in addition to the security registrar) initially designated by CFC with respect to any series of senior debt securities, CFC may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts. However, if senior debt securities of a series are issuable solely as registered senior debt securities, CFC will be required to maintain a transfer agent in each place of payment for such series and, if senior debt securities of a series are issuable as bearer senior debt securities, CFC will be required to maintain (in addition to the security registrar) a transfer agent in a place of payment for such series. CFC may at any time designate additional transfer agents with respect to any series of senior debt securities. (Section 1002)

In the event of any redemption in part, CFC will not be required to:

issue, register the transfer of or exchange senior debt securities of any series during a period beginning at the opening of business 15 days before any selection of senior debt securities of that series to be redeemed and ending at the close of business on:

if senior debt securities of the series are issuable only as registered senior debt securities, the day of mailing of the relevant notice of redemption;

if senior debt securities of the series are issuable only as bearer senior debt securities, the day of the first publication of the relevant notice of redemption; or

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if senior debt securities of the series are issuable as registered senior debt securities and bearer senior debt securities and there is no publication of the relevant notice of redemption, the day of mailing of the relevant notice of redemption;

register the transfer of or exchange any registered senior debt security, or portion thereof, so called for redemption, except the unredeemed portion of any registered senior debt security being redeemed in part; or

exchange any bearer senior debt security so called for redemption, except to exchange such bearer senior debt security for a registered senior debt security of that series and like tenor which is simultaneously surrendered for redemption. (Section 305)

## **Payment and Paying Agents**

Unless otherwise specified in an applicable prospectus supplement or pricing supplement, payment of principal and any premium and any interest on registered senior debt securities will be made at the office of the paying agent or paying agents that CFC may designate from time to time. Unless otherwise specified in an applicable prospectus supplement or pricing supplement, CFC will make payment of any installment of interest on registered senior debt securities to the person in whose name that registered senior debt security is registered at the close of business on the regular record date for such interest. (Section 307)

Unless otherwise specified in an applicable prospectus supplement or pricing supplement, the office of U.S. Bank National Association in the Borough of Manhattan, The City of New York will be designated as sole paying agent for payments with respect to senior debt securities that are issuable solely as registered senior debt securities and as CFC's paying agent in the Borough of Manhattan, The City of New York, for payments with respect to senior debt securities. Any paying agents outside the United States and any other paying agents in the United States initially designated by CFC for the senior debt securities of a particular series will be named in an applicable prospectus supplement or pricing supplement. CFC may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, but if senior debt securities of a series are issuable solely as registered senior debt securities, CFC will be required to maintain a paying agent in each place of payment for such series. (Section 1002)

If senior debt securities of a series are issuable as bearer senior debt securities, CFC will be required to maintain:

a paying agent in the Borough of Manhattan, The City of New York, for payments with respect to any registered senior debt securities of that series and for payments with respect to bearer senior debt securities of that series in certain circumstances; and

a paying agent in a place of payment located outside the United States where senior debt securities of such series and any coupons may be presented and surrendered for payment. (Section 1002)

All moneys paid by CFC to a paying agent for the payment of principal, premium or interest on any senior debt security that remains unclaimed at the end of two years after becoming due and payable will be repaid to CFC. After that time, the holder of that senior debt security or relevant coupon will, as an unsecured general creditor, look only to CFC for payment of those amounts. (Section 1003)

## **Redemption**

Any terms for the optional or mandatory redemption of senior debt securities will be set forth in the applicable prospectus supplement or pricing supplement. Unless otherwise provided in the applicable prospectus supplement with respect to senior debt securities that are redeemable at the option of the holder, senior debt securities will be redeemable only upon notice not less than 30 nor more than 60 days prior to the date fixed for redemption. If less than all of the senior debt securities of a series or tranche are to be redeemed, the particular senior debt securities to be redeemed will be selected by a method of selection that the trustee deems fair and appropriate. (Sections 1103 and 1104)

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### **Restriction on Indebtedness**

CFC may not incur any indebtedness ranking senior to the senior debt securities or make any optional prepayment on any capital term certificate if, as a result, the principal amount of senior indebtedness outstanding, less the principal amount of government or government insured obligations held by CFC, on the date of such incurrence or prepayment or on any future date would exceed 20 times the sum of the members' equity in CFC at the time of determination plus the principal amount of capital term certificates outstanding at the time of determination or at the given future date. The principal amounts of senior indebtedness and capital term certificates to be outstanding on any future given date will be computed after giving effect to maturities and sinking fund requirements. (Section 1007) Senior indebtedness means all indebtedness of CFC (including all guarantees by CFC of indebtedness of others) except capital term certificates. A capital term certificate is defined as a note of CFC substantially in the form of the capital term certificates of CFC outstanding on the date of the senior indenture and any other indebtedness having substantially similar provisions as to subordination. As of August 31, 2011, CFC had \$18.5 billion outstanding of senior indebtedness. As of such date, within the restrictions of the senior indenture, CFC was permitted to have outstanding an additional \$32 billion of senior indebtedness.

### **Consolidation, Merger and Sale of Assets**

CFC may not consolidate with or merge into any other corporation or transfer its assets substantially as an entirety to any person unless:

the successor is a corporation organized under the laws of any domestic jurisdiction;

the successor corporation executes a supplemental indenture pursuant to which it assumes the payment of principal of (and premium, if any) and interest on all the senior debt securities and the performance of every covenant of CFC under the senior indenture;

immediately after giving effect to the transaction, no event of default and no event that, after notice or lapse of time, or both, would become an event of default, has occurred and is continuing; and

CFC delivers to the trustee an officer's certificate and an opinion of counsel as provided in the senior indenture. (Section 801)

### **Modification of the Senior Indenture**

Without the consent of any holder of senior debt securities, CFC and the trustee may enter into one or more supplemental senior indentures for any of the following purposes:

to evidence the assumption by any permitted successor to CFC of the covenants of CFC in the senior indenture and the senior debt securities;

to add to the covenants of CFC for the benefit of the holders of all or any series of senior debt securities or to surrender any right or power conferred upon CFC by the senior indenture;

to add to or change any of the provisions of the senior indenture to the extent necessary to facilitate the issuance of senior debt securities in bearer form, change or eliminate any restrictions on the manner or place of payment of principal of or any premium or interest on bearer securities, or permit bearer securities to be issued in exchange for registered securities or to permit bearer securities to be issued in exchange for bearer securities of other authorized denominations so long as such addition or change does not adversely affect the interests of holders of senior debt securities;



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to provide for the creation of any series of senior debt securities and to establish the form or terms of any such series as permitted by the senior indenture;

to cure any ambiguity or to correct or supplement any provision in the senior indenture which may be defective or inconsistent with any other provision in the senior indenture, so long as such action does not adversely affect the interest of holders of the senior debt securities;

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to modify, eliminate or add to the provisions of this senior indenture to such extent as might be necessary to continue the qualification of the senior indenture under the Trust Indenture Act of 1939, as amended (the Trust Indenture Act );

to add any additional event of defaults with respect to all or any series of senior debt securities;

to change or eliminate any of the provisions of the senior indenture, provided that such change or elimination shall become effective only when there is no series of senior debt securities created prior to the execution of such supplemental senior indenture that is adversely affected by such change or elimination;

to provide for the issuance of uncertificated senior debt securities of one or more series in addition to or in place of certificated senior debt securities;

to provide for the acceptance of appointment by a successor trustee with respect to the senior debt securities of one or more series and to add to or change any of the provisions of the senior indenture as necessary to provide for or facilitate the administration of the trusts under the senior indenture by more than one trustee; or

to permit payment in the United States of principal, premium or interest on bearer securities. (Section 901)  
CFC s rights and obligations and the rights of the holders may be modified with the consent of the holders of at least a majority in principal amount of the then outstanding senior debt securities of all affected series, considered as one class. However, no supplemental indenture may, without the consent of the holders of all the affected outstanding senior debt securities:

change the stated maturity of the principal of, or any installment of principal of or interest on, any senior debt securities;

reduce the principal amount, any premium or the interest rate of any of the senior debt securities;

reduce the amount of the principal of original issue discount senior debt securities payable on any acceleration of maturity;

change the currency, currencies or currency unit or units in which any principal, premium or interest of any of the senior debt securities is payable;

change any of CFC s obligations to maintain an office or agency in the places and for the purposes required by the senior indenture;

impair any right to take legal action for an overdue payment;

reduce the percentage required for modifications to or waivers of compliance with the senior indenture; or

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with certain exceptions, modify the provisions for the waivers of certain covenants and defaults and any of the foregoing provisions. (Section 902)

A supplemental senior indenture that changes or eliminates any provision of the senior indenture expressly included solely for the benefit of a particular series of senior debt securities, or modifies the rights of the holders of senior debt securities of the series with respect to the provision, will be deemed not to affect the rights under the senior indenture of the holders of the senior debt securities of any other series. (Section 902)

The senior indenture provides that in determining whether the holders of the requisite principal amount of the outstanding senior debt securities have given or taken any direction, notice, consent, waiver or other action under the senior indenture as of any date:

the principal amount of an original issue discount security that shall be deemed to be outstanding for such purposes shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon a declaration of acceleration of the maturity thereof pursuant to the senior indenture,

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the principal amount of a senior debt security denominated in a foreign currency or currency unit shall be the dollar equivalent as of the date of original issuance of such senior debt security of the principal amount of such security, and

senior debt securities owned by the company or any other obligor upon the senior debt securities or any affiliate of the company or of such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the trustee shall be protected in relying upon any such request, demand or authorization. (Section 101)

If CFC solicits from holders of senior debt securities any request, demand, authorization, direction, notice, consent, election, waiver or other act, CFC may, at its option, by board resolution, fix in advance a record date for the determination of holders of senior debt securities entitled to give such request, demand, authorization, direction, notice, consent, election, waiver or other act, but CFC shall have no obligation to do so. If a record date is fixed, the request, demand, authorization, direction, notice, consent, election, waiver or other act may be given before or after the record date, but only the holders of record at the close of business on the record date shall be deemed holders for the purposes of determining whether holders of the requisite proportion of the outstanding senior debt securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other act, and for that purpose the outstanding senior debt securities shall be computed as of the record date. Any request, demand, authorization, direction, notice, consent, election, waiver or other act of a holder shall bind every future holder of the same security and the holder of every security issued upon the registration of transfer or in exchange or in lieu of the security in respect of anything done, omitted or suffered to be done by the trustee or CFC in reliance thereon, whether or not notation is made upon security. (Section 104)

### **Waiver of Certain Covenants**

CFC will not be required to comply with certain restrictive covenants (including that described above under **Restriction on Indebtedness** ) if the holders of at least a majority in principal amount of all series of outstanding senior debt securities affected waive compliance with the restrictive covenants. (Section 1009)

### **Events of Default, Notice and Waiver**

Each of the following will constitute an event of default under the senior indenture with respect to the senior debt securities of any series:

failure to pay interest on any senior debt security for 30 days after such interest becomes due and payable;

failure to pay the principal of or any premium on any senior debt security at maturity;

failure to deposit any sinking fund payment when such payment becomes due;

failure to perform or breach of the covenant described above under **Restrictions on Indebtedness** that continues for 60 days after the default becomes known to an officer of CFC;

failure to perform or breach of any other covenant or warranty in the senior indenture that continues for 60 days after written notice to CFC from the trustee or the holders of at least 25% in principal amount of the outstanding senior debt securities of the series;

certain events of bankruptcy, insolvency or reorganization of CFC; and

such other events as may be specified for each series. (Section 501)

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If an event of default with respect to any series or senior notes has occurred and is continuing, either the trustee or the holders of not less than 25% in principal amount of the outstanding senior debt securities of such series may declare the principal amount (or, if the senior debt securities are original issue discount senior debt securities, such portion of the principal amount as may be specified by the terms of such senior debt securities) of all of the senior debt securities of that series to be immediately due and payable. (Section 502)

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At any time after a declaration of acceleration with respect to the senior debt securities of any series and before a judgment or decree for payment of the money due has been obtained, the events of default giving rise to the declaration of acceleration will be deemed waived, and the declaration and its consequences will be deemed rescinded and annulled, if:

CFC has paid or deposited with the trustee a sum sufficient to pay:

all overdue interest on all senior debt securities of such series;

the principal of and premium, if any, on any senior debt securities of such series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such senior debt securities;

interest upon overdue interest at the rate or rates prescribed therefor in such senior debt securities, to the extent that payment of such interest is lawful; and

all amounts due to the trustee under the senior indenture; and

any other events of default with respect to the senior debt securities of such series, other than the nonpayment of the principal of the senior debt securities of such series which has become due solely by such declaration of acceleration, have been cured or waived as provided in the senior indenture. (Section 502)

The holders of a majority in principal amount of the outstanding senior debt securities of any series may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the senior debt securities of that series provided that such direction shall not be in conflict with any rule of law or the senior indenture. The trustee may take any other action that is consistent with such directions and may decline to act if the trustee determines that such direction would involve it in personal liability. (Section 507)

The holders of not less than a majority in principal amount of the outstanding senior debt securities of any series may on behalf of the holders of all of the outstanding senior debt securities of such series waive any past default with respect to such series and its consequences, except a default:

in the payment of the principal of or any premium or any interest on any senior debt security of such series or;

in respect of a covenant or provision which, under the terms of the senior indenture, cannot be modified or amended without the consent of the holders of all of the outstanding senior debt securities of such series. (Section 508)

The senior indenture contains provisions entitling the trustee, subject to the duty during an event of default in respect of any series of senior debt securities to act with the required standard of care, to be indemnified by the holders of the senior debt securities of the relevant series before proceeding to exercise any right or power at the request of those holders. (Sections 601 and 603)

No holder of a senior debt security of any series will have any right to institute any proceeding with respect to the senior indenture, or for the appointment of a receiver, or for any other remedy, unless:

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an event of default with respect to the senior debt securities of such series shall have occurred and be continuing, written notice of which has previously been given to the trustee by such holder;

the holders of at least 25% in aggregate principal amount of the outstanding senior debt securities of such series have made written request for institution of such proceeding to the trustee and have offered reasonable indemnity to the trustee; and

the trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding senior debt securities of such series a direction inconsistent with such request, within 60 days after receipt of such notice, request and offer. (Section 509)

The senior indenture provides that the trustee will, within 90 days after the occurrence of a default in respect of any series of senior debt securities, give to the holders of the senior debt securities of such series notice of all uncured and unwaived defaults known to it; provided that except in the case of a default in the

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payment of the principal of or any premium or any interest on, or any sinking fund or purchase fund installment with respect to, any of the senior debt securities of such series, the trustee will be protected in withholding this notice if it in good faith determines that the withholding of such notice is in the interest of those holders. Such notice shall not be given until at least 60 days after the occurrence of default in respect of the performance or breach of any covenant or warranty other than for the payment of the principal of or premium or any interest on, or any sinking fund installment with respect to, any of the senior debt securities of such series. (Section 602)

The senior indenture requires CFC to file annually with the trustee a certificate, executed by two officers of CFC, indicating each such officer's supervision of a review of CFC's activities and performance under the senior indenture and whether, based on such review, CFC has performed its obligations under the senior indenture or if there has been a default in the fulfillment of such obligations. (Section 1008)

## **Meetings**

The senior indenture contains provisions for convening meetings of the holders of senior debt securities of a series if senior debt securities of such series are issuable as bearer senior debt securities. (Section 1201) A meeting may be called at any time by the trustee and also, upon request, by CFC or the holders of at least 10% in principal amount of the outstanding senior debt securities of such series, upon notice given in accordance with Notices below. (Section 1202) Persons entitled to vote a majority in principal amount of the outstanding senior debt securities of a series shall constitute a quorum at a meeting of holders of senior debt securities of such series. In the absence of a quorum, a meeting called by the holders of senior debt securities shall be dissolved and a meeting called by CFC or the trustee shall be adjourned for a period of at least 10 days, and in the absence of a quorum at the adjourned meeting, the meeting shall be further adjourned for a period of at least 10 days, at which further adjourned meeting persons entitled to vote 25% in aggregate principal amount of the outstanding senior debt securities of such series shall constitute a quorum. Except for any consent which must be given by the holder of each outstanding senior debt security affected thereby, as described above under Modification of the Senior Indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum is present may be adopted by the affirmative vote of the lesser of:

the holders of a majority in principal amount of the outstanding senior debt securities of such series, and

66 $\frac{2}{3}$ % in aggregate principal amount of outstanding senior debt securities of such series represented and voting at such meeting.

However, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which may be made, given or taken by the holders of a specified percentage, which is less than a majority, in principal amount of outstanding senior debt securities of such series may be adopted at a meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the lesser of:

the holders of such specified percentage in principal amount of the outstanding senior debt securities of such series, and

a majority in principal amount of outstanding senior debt securities of such series represented and voting at the meeting.

Any resolution passed or decision taken at any meeting of holders of senior debt securities of any series duly held in accordance with the senior indenture will be binding on all holders of senior debt securities of such series and the related coupons. (Section 1204)

## **Notices**

Notices to holders of registered senior debt securities will be given by mail to the address of each such holder as it appears in the security register. (Section 106) Except as otherwise provided in the senior indenture or such bearer senior debt securities, notices to holders of bearer senior debt securities will be given by publication at least once in a daily newspaper in The City of New York and London and will be mailed to the persons whose names and addresses were previously filed with the trustee, within the time prescribed for the giving of such notice.



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### **Title**

CFC, the trustee and any agent of CFC or the trustee may treat the person in whose name a registered senior debt security is registered, in the case of registered senior debt securities, and the bearer of any bearer senior debt security and the bearer of any coupon, in the case of bearer senior debt securities, as the absolute owner thereof whether or not such senior debt security or coupon is overdue and notwithstanding any notice to the contrary for the purpose of making payment and for all other purposes. (Section 308)

Title to any bearer senior debt security (including any bearer senior debt security in temporary or definitive global bearer form) and any coupons will pass by delivery.

### **Replacement of Senior Debt Securities and Coupons**

CFC will replace any mutilated senior debt security and any senior debt security with a mutilated coupon at the expense of the holder upon surrender of such mutilated senior debt security or senior debt security with a mutilated coupon to the trustee. CFC will replace senior debt securities or coupons that become destroyed, stolen or lost at the expense of the holder upon delivery to the trustee of evidence of the destruction, loss or theft thereof satisfactory to CFC and the trustee. In the case of any coupon which becomes destroyed, stolen or lost, that coupon will be replaced upon surrender to the trustee of the senior debt security with all related coupons not destroyed, stolen or lost by issuance of a new senior debt security in exchange for the senior debt security to which such coupon relates. In the case of a destroyed, lost or stolen senior debt security or coupon an indemnity satisfactory to the trustee and CFC may be required at the expense of the holder of such senior debt security or coupon before a replacement senior debt security will be issued. (Section 306)

### **Satisfaction and Discharge; Defeasance**

At CFC's request, the senior indenture will cease to be in effect as to any specified series of senior debt securities (except for certain obligations to register the transfer or exchange of senior debt securities and hold moneys for payment in trust) if:

all the senior debt securities of such series have been cancelled by the trustee, or

in the case of senior debt securities and coupons not delivered to the trustee for cancellation, the senior debt securities or coupons have become due and payable, will become due and payable at their stated maturity within one year or are to be called for redemption within one year and, in each case, CFC has deposited with the trustee, in trust, money and, in the case of senior debt securities and coupons denominated in U.S. dollars, U.S. government obligations or, in the case of senior debt securities and coupons denominated in a foreign currency, foreign government senior debt securities, which through the payment of interest and principal in accordance with their terms will provide money in an amount sufficient to pay in the currency, currencies or currency units or units in which the offered senior debt securities are payable all the principal of, and interest on, the offered senior debt securities on the dates such payments are due in accordance with the terms of the offered senior debt securities, or

the senior debt securities or coupons are deemed paid and discharged in the manner described in the next paragraph. (Section 401)  
Unless the prospectus supplement relating to the offered senior debt securities provides otherwise, CFC at its option:

will be discharged from any and all obligations in respect of such series of senior debt securities (except for certain obligations to register the transfer or exchange of senior debt securities, replace stolen, lost or mutilated senior debt securities and coupons, maintain paying agencies and hold moneys for payment in trust), or

need not comply with certain restrictive covenants of the senior indenture (including those described above under "Restriction on Indebtedness"),



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in each case after CFC deposits with the trustee, in trust, money, and, in the case of senior debt securities and coupons denominated in U.S. dollars, U.S. government obligations or, in the case of senior debt securities and coupons denominated in a foreign currency, foreign government senior debt securities, which through the payment of interest and principal in accordance with their terms will provide money in an amount sufficient to pay in the currency, currencies or currency unit or units in which the offered senior debt securities are payable all the principal of, and interest on, the offered senior debt securities on the dates such payments are due in accordance with the terms of the offered senior debt securities.

Among the conditions to CFC's exercising any such option, CFC is required to deliver to the trustee an opinion of counsel to the effect that the deposit and related defeasance would not cause the holders of the offered senior debt securities to recognize income, gain or loss for United States federal income tax purposes and that the holders will be subject to United States federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such option had not been exercised. (Section 403)

At CFC's request, the trustee will deliver or pay to CFC any U.S. government obligations, foreign government securities or money deposited, for the purposes described in the preceding two paragraphs, with the trustee by CFC and which, in the opinion of a nationally-recognized firm of independent public accountants, are in excess of the amount which would then have been required to be deposited for such purposes. In addition, the trustee, in exchange for, simultaneously, other U.S. government obligations, foreign government securities or money, will deliver or pay to CFC, at CFC's request, U.S. government obligations, foreign government securities or money deposited with the trustee for the purposes described in the preceding two paragraphs, if, in the opinion of a nationally-recognized firm of independent public accountants, immediately after such exchange, the obligations, securities or money then held by the trustee will be in the amount then required to be deposited with the trustee for such purposes. (Section 403)

## **Governing Law**

The senior indenture, the senior debt securities and the coupons will be governed by, and construed in accordance with, the laws of the State of New York. (Section 113)

## **The Trustee**

U.S. Bank National Association is the trustee under the senior indenture.

## **Limitations on Issuance of Bearer Securities**

Under U.S. federal tax laws, certain limitations on offers, sales and delivery apply to bearer senior debt securities. CFC will set forth these limitations, as well as additional information regarding the U.S. federal income tax consequences in respect of a bearer senior debt security, in any prospectus supplement providing for the issuance of bearer senior debt securities.

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**DESCRIPTION OF SUBORDINATED DEBT SECURITIES**

The following description summarizes the general terms and provisions that may apply to the subordinated debt securities. Each prospectus supplement will state the particular terms of the subordinated debt securities and the extent, if any, to which the general provisions may apply to the subordinated debt securities included in the supplement.

The subordinated debt securities will be issued under an indenture dated as of October 15, 1996 between CFC and U.S. Bank National Association, as successor trustee, or other trustee to be named (the subordinated indenture). The subordinated indenture does not limit the aggregate principal amount of subordinated debt securities which may be issued under it. Additionally, CFC may, without the consent of the holders of the subordinated debt securities of any series, re-open a previous series of subordinated debt securities and issue additional subordinated debt securities of the same series, which additional subordinated debt securities will have the same terms as the original series except for the issue price, issue date and, in some cases, the first interest payment date. CFC will not issue any additional subordinated debt securities of the same series unless the additional subordinated debt securities will be fungible with all the subordinated debt securities of the same series for United States federal income tax purposes.

The statements in this prospectus concerning the subordinated indenture, one or more supplemental indentures and the subordinated debt securities do not purport to be complete and are qualified in their entirety by reference to the subordinated indenture and any supplemental indenture, each of which is or will be incorporated by reference into this prospectus.

**General**

The subordinated debt securities will be issued in fully registered form without coupons unless the applicable prospectus supplement provides for an issuance to be in a form registered as to principal only with or without coupons or if provided for in a supplemental indenture or board resolution, in bearer form with or without coupons, or any combination thereof. Unless specified otherwise in the prospectus supplement, all subordinated debt securities will be denominated in U.S. dollars in denominations of \$1,000 and multiples of \$1,000. (Sections 201 and 302)

The subordinated debt securities will be direct, unsecured and subordinated obligations of CFC.

If any of the subordinated debt securities are offered in a foreign currency or currency unit or if principal of, any premium or any interest on any of the debt securities is payable in any foreign currency or currency unit, the applicable prospectus supplement will describe the restrictions, elections, specific terms and other information relative to those subordinated debt securities.

CFC may issue subordinated debt securities in one or more series with the same or various maturities at or above par or with an original issue discount. Original issue discount securities bearing no interest or interest at a rate which at the time of issuance is below market rates will be sold at a discount (which may be substantial) below their stated principal amount. See the disclosure regarding taxation contained in the relevant prospectus supplement for a discussion of certain federal income tax considerations with respect to any original issue discount securities.

The prospectus supplement relating to the particular series of subordinated debt securities being offered will specify the amounts, prices and terms of such securities. These terms may include:

the title of and the limit on the aggregate principal amount of subordinated debt securities to be issued;

the percentage of their principal amount at which the subordinated debt securities will be sold;

the date or dates on which the subordinated debt securities will mature;

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the annual rate or rates (which may be fixed or variable) or the method of determining any rate or rates at which the subordinated debt securities will bear interest;

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the date or dates from which such interest shall accrue and the date or dates at which interest will be payable;

the place where payments may be made on the subordinated debt securities;

any redemption or sinking fund terms;

the denominations in which the subordinated debt securities will be issuable, if other than \$1,000 and any integral multiple thereof;

the principal amount of original issue discount subordinated debt securities payable upon acceleration;

the means of satisfaction and discharge of the subordinated indenture with respect to the subordinated debt securities;

if the amount payable in respect of principal of or any premium or interest on any of such subordinated debt securities may be determined with reference to an index or other fact or event ascertainable outside the indenture, the manner in which the amounts will be determined;

if other than the currency of the United States, the currency, currencies or currency unit or units in which the payment of principal of and any premium and interest on any subordinated debt securities will be payable;

if other than the principal amount of the subordinated debt securities, the portion of the principal amount of the subordinated debt securities payable upon declaration of acceleration of the maturity;

if the principal of or premium or interest on the subordinated debt securities are to be payable in securities or other property, the type and amount of securities or other property, or the method of determining the amount, and the terms and conditions of the election;

the terms, if any, on which subordinated debt securities may be converted into or exchanged for securities of CFC or any other person;

the obligations or instruments, if any, considered eligible obligations in respect of subordinated debt securities denominated in a currency other than dollars or in a composite currency, and any additional or alternative provisions for the reinstatement of CFC's indebtedness in respect of the subordinated debt securities after their satisfaction and discharge;

if either CFC or the holders of subordinated debt securities may elect payment in a currency, currencies or currency unit or units other than that in which the subordinated debt securities are stated to be payable, then the period or periods within which, and the terms upon which, the election may be made and, if the amount of those payments may be determined with reference to an index based on a currency, currencies or currency unit or units, other than that in which the subordinated debt securities are stated to be payable, then the manner in which such amounts shall be determined;

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whether the subordinated debt securities will be issued as registered subordinated debt securities, in a form registered as to principal only with or without coupons, or as bearer subordinated debt securities including temporary and definitive global form, or any combination thereof and applicable exchange provisions;

whether CFC will pay additional amounts to any holder of subordinated debt securities who is not a United States person (as defined in the disclosure relating to tax matters contained in the relevant prospectus supplement) in respect of any tax, assessment or governmental charge required to be withheld or deducted and whether CFC will have the option to redeem the applicable subordinated debt securities rather than pay additional amounts;

the applicability to the series of the subordinated indenture defeasance provisions;

any limitations on the rights of the holders of subordinated debt securities to transfer or exchange or to obtain the registration of transfer of subordinated debt securities, and the amount or terms of a service charge if any for the registration of transfer or exchange of subordinated debt securities;

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any changes to the events of default or covenants described in this prospectus; and

any other terms of the subordinated debt securities not inconsistent with the provisions of the subordinated indenture.  
(Section 301)

Except as otherwise described in the applicable prospectus supplement, the covenants contained in the indenture would not afford holders of subordinated debt securities protection in the event of a highly-leveraged transaction involving CFC.

## **Subordination**

The subordinated debt securities will be subordinate and junior in right of payment to all senior indebtedness of CFC.

No payment of principal of, including redemption and sinking fund payments, or premium or interest on, the subordinated debt securities may be made if any senior indebtedness is not paid when due, or a default has occurred with respect to the senior indebtedness permitting the holders to accelerate its maturity and the default has not been cured or waived and has not ceased to exist. Upon any acceleration of the principal amount due on the subordinated debt securities or any distribution of assets of CFC to creditors upon any dissolution, winding-up, liquidation or reorganization, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of, and premium, if any, and interest due or to become due on, all senior indebtedness must be paid in full before the holders of the subordinated debt securities are entitled to receive or retain any payment. The holders of the subordinated debt securities will be subrogated to the rights of the holders of senior indebtedness to receive payments or distributions until all amounts owing on the subordinated debt securities are paid in full. (Article 15)

The term "senior indebtedness" is defined in the indenture to mean:

all indebtedness heretofore or hereafter incurred by CFC for money borrowed unless by its terms it is provided that such indebtedness is not senior indebtedness;

all other indebtedness hereafter incurred by the CFC which by its terms provides that such indebtedness is senior indebtedness;

all guarantees, endorsements and other contingent obligations in respect of, or obligations to purchase or otherwise acquire or service, indebtedness or obligations of others; and

any amendments, modifications, deferrals, renewals or extensions of any such senior indebtedness, or debentures, notes or evidences of indebtedness heretofore or hereafter issued in evidence of or exchange of such senior indebtedness.

The indenture does not limit the aggregate amount of senior indebtedness that CFC may issue. As of August 31, 2011, outstanding senior indebtedness of CFC aggregated approximately \$18.5 billion, including contingent guarantees of \$1.1 billion.

## **Exchange, Registration and Transfer**

Unless otherwise specified in the applicable prospectus supplement, subordinated debt securities of any series that are not global subordinated debt securities will be exchangeable for other subordinated debt securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations. (Section 305)

Subject to the terms of the indenture and the limitations applicable to global securities, subordinated debt securities may be presented for exchange as provided above or for registration of transfer, duly endorsed or accompanied by a duly executed instrument of transfer, at the office of the security registrar or at the office of any transfer agent designated by CFC for such purpose. CFC may designate itself the security registrar. No service charge will be made for any registration of transfer or exchange of subordinated debt securities, but CFC may require payment of a sum sufficient to cover any applicable tax or other governmental charge. The transfer or exchange will be effected upon the security registrar or such transfer agent, as the case may be,





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being satisfied with the documents of title and identity of the person making the request. (Section 305) Any transfer agent in addition to the security registrar initially designated by CFC for any subordinated debt securities will be named in the applicable prospectus supplement. CFC may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, but CFC will be required to maintain a transfer agent in each place of payment for the subordinated debt securities of each series. (Section 602)

CFC will not be required to:

register the transfer of, or exchange any subordinated debt securities or any tranche thereof during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any such subordinated debt security called for redemption and ending at the close of business on the day of such mailing; or

register the transfer of or exchange any subordinated debt security so selected for redemption, in whole or in part, except the unredeemed portion of any such subordinated debt security being redeemed in part. (Section 305)

## **Payment and Paying Agents**

Unless otherwise specified in an applicable prospectus supplement, payment of principal and any premium and interest on the subordinated debt securities of a particular series will be made at the office of the paying agent or paying agents that CFC may designate from time to time. Unless otherwise specified in an applicable prospectus supplement, CFC will make payment on any installment of interest on registered subordinated debt securities to the person in whose name that registered subordinated debt security is registered at the close of business on the regular record date for such interest. (Section 307)

Unless otherwise specified in an applicable prospectus supplement, the office of U.S. Bank National Association in the Borough of Manhattan, The City of New York will be designated as sole paying agent for payments with respect to subordinated debt securities. Any paying agents outside the United States and any other paying agents initially designated by CFC for the subordinated debt securities of a particular series will be named in an applicable prospectus supplement. CFC may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, but CFC will be required to maintain a paying agent in each place of payment for the subordinated debt securities of a particular series. (Section 602)

All moneys paid by CFC to a paying agent for the payment of the principal, premium or interest on any subordinated debt security that remains unclaimed at the end of two years after becoming due and payable will be repaid to CFC. After that time, the holder of that subordinated debt security will, as an unsecured general creditor, look only to CFC for payment of those amounts. (Section 603)

## **Redemption**

Any terms for the optional or mandatory redemption of subordinated debt securities will be set forth in the applicable prospectus supplement or pricing supplement. Unless otherwise provided in the applicable prospectus supplement with respect to subordinated debt securities that are redeemable at the option of the holder, subordinated debt securities will be redeemable only upon notice by mail not less than 30 nor more than 60 days prior to the date fixed for redemption. If less than all the subordinated debt securities of a series or tranche are to be redeemed, the particular subordinated debt securities to be redeemed will be selected by a method of random selection that the security registrar deems fair and appropriate. (Section 403 and 404)

Any notice of redemption at the option of CFC may state that the redemption will be conditional upon receipt by the paying agent or agents, on or prior to the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such subordinated debt securities. The notice may also state that if the money has not been received, the notice will be of no force and effect and CFC will not be required to redeem such subordinated debt securities. (Section 404)

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### **Consolidation, Merger, and Sale of Assets**

CFC may not consolidate with or merge into any other corporation or transfer its assets substantially as an entirety to any person unless:

the successor is a corporation organized under the laws of any domestic jurisdiction;

the successor corporation executes a supplemental indenture pursuant to which it assumes the payment of principal of (and premium, if any) and interest on all the subordinated debt securities and the performance of every covenant of CFC under the subordinated indenture;

immediately after giving effect to the transaction, no event of default, and no event that, after notice or lapse of time, or both, would become an event of default, has occurred and is continuing; and

CFC delivers to the trustee an officer's certificate and an opinion of counsel as provided in the subordinated indenture. (Section 1101)

### **Modification of the Subordinated Indenture**

Without the consent of any holder of subordinated debt securities, CFC and the trustee may enter into one or more supplemental subordinated indentures for any of the following purposes:

to evidence the assumption by any permitted successor to CFC of the covenants of CFC in the subordinated indenture and the subordinated debt securities;

to add one or more covenants of CFC or other provisions for the benefit of the holders of all or any series of the subordinated debt securities or to surrender any right or power conferred upon CFC by the subordinated indenture;

to add any additional events of default with respect to all or any series of outstanding subordinated debt securities;

to change or eliminate any provision of the subordinated indenture or to add any new provision to the subordinated indenture, but if the change, elimination or addition will adversely affect the interests of the holders of subordinated debt securities of any series in any material respect, the change, elimination or addition will not become effective with respect to the series;

to provide collateral security for the subordinated debt securities;

to establish the form or terms of subordinated debt securities of any series as permitted by the subordinated indenture;

to provide for the acceptance of appointment by a successor trustee with respect to the subordinated debt securities of one or more series and to add to or change any of the provisions of the subordinated indenture as necessary to provide for or facilitate the administration of the trusts under the subordinated indenture by more than one trustee;

to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series of subordinated debt securities;

to change any place where:

the principal of and premium, if any, and interest, if any, on any subordinated debt securities is payable;

any subordinated debt securities may be surrendered for registration of transfer or exchange; and

notices and demands to or upon CFC in respect of subordinated debt securities and the indenture may be served; or

to cure any ambiguity or inconsistency or to make or change any other provisions with respect to matters and questions arising under the subordinated indenture, so long as such changes or additions do not adversely affect the interests of the holders of subordinated debt securities of any series in any material respect. (Section 1201)

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If the Trust Indenture Act is amended after the date of the subordinated indenture to require changes to the subordinated indenture or the incorporation of additional provisions or to permit changes to, or the elimination of, provisions which, at the date of the subordinated indenture, were required by the Trust Indenture Act to be contained in the subordinated indenture, the subordinated indenture will be deemed amended so as to conform to the amendment or to effect the changes or elimination. CFC and the trustee may, without the consent of any holders, enter into one or more supplemental subordinated indentures to evidence or effect the amendment. (Section 1201)

Except as provided above, the consent of the holders of not less than a majority in aggregate principal amount of the subordinated debt securities of all series then outstanding, considered as one class, is required to add any provisions to, or change in any manner, or eliminate any of the provisions of, the indenture. However, if less than all of the series of subordinated debt securities outstanding are directly affected by a proposed supplemental indenture, then the consent only of the holders of a majority in aggregate principal amount of outstanding subordinated debt securities of all series so directly affected, considered as one class, will be required. If the subordinated debt securities of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of one or more, but less than all, tranches, the consent only of the holders of a majority in aggregate principal amount of the outstanding subordinated debt securities of all tranches directly affected, considered as one class, will be required. However, no supplemental subordinated indenture may, without the consent of the holders of all of the affected outstanding subordinated debt securities:

change the stated maturity, installment or interest rate of any of the subordinated debt securities;

reduce the principal amount, any premium or the interest rate on any of the subordinated debt securities;

reduce the amount of the principal of original issue discount subordinated debt securities payable on acceleration of maturity;

change the coin or currency or other property in which any principal, premium or interest of any of the subordinated debt securities is payable;

impair any right to take legal action for an overdue payment;

reduce the percentage required for modifications to or waivers of compliance with the subordinated indenture;

reduce the requirements for quorum or voting; or

with certain exceptions, modify the provisions for the waivers of certain covenants and defaults and any of the foregoing provisions. (Section 1202)

A supplemental indenture that changes or eliminates any provision of the subordinated indenture expressly included solely for the benefit of a particular series of subordinated debt securities or tranches, or modifies the rights of the holders of subordinated debt securities of the series or tranches with respect to the provision, will be deemed not to affect the rights under the subordinated indenture of the holders of the subordinated debt securities of any other series or tranche. (Section 1202)

The subordinated indenture provides that in determining whether the holders of the requisite principal amount of the outstanding subordinated debt securities have given or taken any direction, notice, consent, waiver or other action under the subordinated indenture as of any date:

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subordinated debt securities owned by CFC or any other obligor upon the securities or any affiliate of CFC or of the other obligor unless CFC, the affiliate or obligor owns all securities outstanding under the subordinated indenture, or all outstanding securities of each the series and the tranche, as the case may be, determined without regard to this bullet point shall be disregarded and deemed not outstanding;

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the principal amount of a discount subordinated debt security deemed outstanding shall be the amount of the principal that would be due and payable as of the date of determination upon a declaration of acceleration of the maturity as provided in the subordinated indenture; and

the principal amount of a subordinated debt security denominated in foreign currencies or a composite currency deemed outstanding will be the dollar equivalent, determined as of that date in the manner prescribed for that subordinated debt security, of the principal amount of that subordinated debt security, or, in the case of a subordinated debt security described in the second bullet point above, of the amount described in that bullet point. (Section 101)

If CFC solicits from holders of subordinated debt securities any request, demand, authorization, direction, notice, consent, election, waiver or other act, CFC may, at its option, by board resolution, fix in advance a record date for the determination of holders of subordinated debt securities entitled to give such request, demand, authorization, direction, notice, consent, election, waiver or other act, but CFC shall have no obligation to do so. If a record date is fixed, the request, demand, authorization, direction, notice, consent, election, waiver or other act may be given before or after the record date, but only the holders of record at the close of business on the record date shall be deemed holders for the purposes of determining whether holders of the requisite proportion of the outstanding subordinated debt securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other act, and for that purpose the outstanding subordinated debt securities shall be computed as of the record date. Any request, demand, authorization, direction, notice, consent, election, waiver or other act of a holder shall bind every future holder of the same security and the holder of every security issued upon the registration of transfer or in exchange or in lieu of the security in respect of anything done, omitted or suffered to be done by the trustee or CFC in reliance thereon, whether or not notation is made upon security. (Section 104)

### **Waiver of Certain Covenants**

CFC will not be required to comply with certain restrictive covenants if the holders of at least a majority in principal amount of all series of outstanding subordinated debt securities affected waive compliance with the restrictive covenants. (Section 606)

### **Events of Default, Notice and Waiver**

Each of the following will constitute an event of default under the subordinated indenture with respect to subordinated debt securities of any series:

failure to pay interest on any subordinated debt securities for 60 days after the interest becomes due and payable;

failure to pay principal or premium, if any, on any debt security within three business days after the security becomes due;

failure to perform or breach of any other covenant or warranty in the subordinated indenture that continues for 60 days after written notice to CFC from the trustee, or holders of at least 33% in principal amount of the outstanding subordinated debt securities of the series;

certain events of bankruptcy, insolvency or reorganization of CFC; and

such other events as may be specified for each series.

No event of default with respect to one series of subordinated debt securities necessarily constitutes an event of default with respect to another series of subordinated debt securities. (Section 801)

If an event of default with respect to any series of subordinated debt securities has occurred and is continuing, either the trustee or the holders of not less than 33% in principal amount of the outstanding subordinated debt securities of such series may declare the principal amount, (or if the subordinated debt securities are original issue discount subordinated debt securities, such portion of the principal amount as may be

specified by the terms of such subordinated debt securities) of all of the subordinated debt securities of that series to be immediately due and



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payable. However, if an event of default has occurred and is continuing with respect to more than one series of subordinated debt securities, the trustee or the holders of not less than 33% in aggregate principal amount of the outstanding subordinated debt securities of all such series, considered as one class, and not the holders of the subordinated debt securities of any one series may make the declaration of acceleration. (Section 802)

At any time after a declaration of acceleration with respect to the subordinated debt securities of any series and before a judgment or decree for payment of the money due has been obtained, the events of default giving rise to the declaration of acceleration will be deemed waived, and the declaration and its consequences will be deemed rescinded and annulled, if:

CFC has paid or deposited with the trustee a sum sufficient to pay:

all overdue interest on all subordinated debt securities of such series;

the principal of and premium, if any, on any subordinated debt securities of such series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such subordinated debt securities;

interest upon overdue interest at the rate or rates prescribed therefor in such subordinated debt securities, to the extent that payment of such interest is lawful; and

all amounts due to the trustee under the subordinated indenture; and

any other events of default with respect to the subordinated debt securities of such series, other than the nonpayment of the principal of the subordinated debt securities of such series which has become due solely by such declaration of acceleration, have been cured or waived as provided in the subordinated indenture. (Section 802)

If an event of default has occurred and is continuing, in respect of a series of subordinated debt securities, the holders of a majority in principal amount of the outstanding subordinated debt securities of such series may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the subordinated debt securities of such series; provided that if an event of default has occurred and is continuing in respect of more than one series of subordinated debt securities, the holders of a majority in aggregate principal amount of the outstanding subordinated debt securities of all such series, considered as one class, may make such direction; provided further that such direction shall not be in conflict with any rule of law or the subordinated indenture, or involve the trustee in personal liability where indemnification would not, in the trustee's discretion, be adequate. The trustee may take any other action that is consistent with such directions. (Section 812)

The holders of not less than a majority in principal amount of the outstanding subordinated debt securities of any series may on behalf of the holders of all of the outstanding subordinated debt securities of such series waive any past default under the subordinated indenture with respect to such series and its consequences, except a default:

in the payment of principal, premium or interest on any subordinated debt security of such series; or

in respect of a covenant or provision of the subordinated indenture which cannot be modified or amended without the consent of the holders of all of the outstanding debt securities of such series. (Section 813)

The subordinated indenture contains provisions entitling the trustee, subject to the duty during an event of default in respect of any series of subordinated debt securities to act with the required standard of care, to be indemnified by the holders of the subordinated debt securities of

the relevant series before proceeding to exercise any right or power at the request of those holders. (Sections 901 and 903)

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No holder of a subordinated debt security of any series will have any right to institute any proceeding with respect to the subordinated indenture, or for the appointment of a receiver or a trustee, or for any other remedy, unless:

an event of default with respect to the subordinated debt securities of such series shall have occurred and be continuing, written notice for which has previously been given to the trustee by such holder;

the holders of not less than  $33\frac{1}{3}\%$  in aggregate principal amount of the outstanding subordinated debt securities of all series in respect of which an event of default has occurred and is continuing, considered as one class, have made written request to the trustee for institution of such proceeding and have offered reasonable indemnity to the trustee; and

the trustee has failed to institute such proceeding and has not received from the holders of a majority in aggregate principal amount of the outstanding subordinated debt securities of all series in respect of which an event of default has occurred and is continuing, considered as one class, a direction inconsistent with such request, within 60 days after such notice, request and offer. (Section 807)

These limitations do not apply to a suit instituted by a holder of a subordinated debt security for the enforcement of payment of the principal of or any premium or interest on the subordinated debt security on or after the applicable maturity date specified in such subordinated debt security. (Section 808)

The subordinated indenture provides that the trustee will give notice of any uncured and unwaived default under the subordinated indenture with respect to any series of subordinated debt securities to the holders of such series in the manner and to the extent required by the Trust Indenture Act, except that no notice of any default with respect to any of CFC's covenants or warranties shall be given until at least 75 days after the occurrence of such default. (Section 902)

The subordinated indenture requires CFC to file annually with the trustee a certificate, executed by an officer of CFC as to such officer's knowledge of CFC's compliance with all conditions and covenants under the subordinated indenture, determined without regard to any grace period or notice requirements. (Section 605)

## **Meetings**

A meeting may be called at any time by the trustee and also, upon request to the trustee, by CFC or the holders of at least 33% in principal amount of the outstanding subordinated debt securities of all series and tranches upon notice given in accordance with Notices below. (Section 1302). Persons entitled to vote a majority in principal amount of the outstanding subordinated debt securities of such series or tranches shall constitute a quorum at a meeting of holders of subordinated debt securities of such series or tranches. However, if any action is to be taken at such meeting which the subordinated indenture provides may be taken by holders of subordinated debt securities of a specified percentage that is less than a majority in principal amount of the outstanding subordinated debt securities of such series and tranches, considered as one class, the persons entitled to vote such specified percentage in principal amount of the outstanding subordinated debt securities of such series and tranches, considered as one class, shall constitute a quorum. In the absence of a quorum, a meeting called by holders of subordinated debt securities shall be dissolved and a meeting called by CFC or the trustee shall be adjourned as determined by the chairman of the meeting. In the absence of a quorum at the adjourned meeting, the meeting shall be further adjourned for such period as may be determined by the chairman of the meeting. Except for any consent which must be given by the holder of each outstanding subordinated debt security affected thereby, as described above under Modification of the Subordinated Indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum is present may be adopted by the affirmative vote of a majority in aggregate principal amount of the outstanding subordinated debt securities. (Section 1304)

However, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which may be made, given or taken by the holders of a specified percentage, which is less than a majority, in principal amount of outstanding subordinated debt securities of a series may be adopted at a meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the holders of such specified percentage in principal amount of the outstanding subordinated debt securities of that series. (Section 1304)



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Any resolution passed or decision taken at any meeting of holders of subordinated debt securities of any series duly held in accordance with the subordinated indenture will be binding on all holders of subordinated debt securities of that series and the related coupons. (Section 1304)

### **Notices**

Notices to holders of registered subordinated debt securities will be given by mail to the address of each such holder as it appears in the security register (Section 106).

### **Title**

CFC, the trustee and any agent of CFC or the trustee may treat the person in whose name a subordinated debt security is registered as the absolute owner of such subordinated debt security, whether or not such subordinated debt security may be overdue and notwithstanding any notice to the contrary, for the purpose of making payment and for all other purposes. (Section 308)

### **Satisfaction and Discharge; Defeasance**

Unless otherwise indicated in the applicable prospectus supplement or pricing supplement, any debt security, or any portion of the principal amount, will be deemed paid for purposes of the indenture, and, at CFC's election, the entire indebtedness of CFC in respect thereof will be deemed satisfied and discharged, if there has been irrevocably deposited with the trustee or any paying agent other than CFC in trust any of the following in an amount sufficient to pay when due the principal of and premium, if any, and interest, if any, due and to become due on the subordinated debt securities or portions thereof:

money;

eligible obligations; or

a combination of the above bullet points. (Section 701)

For this purpose, unless otherwise indicated in the applicable prospectus supplement or pricing supplement, eligible obligations include direct obligations of, or obligations unconditionally guaranteed by, the United States, entitled to the benefit of its full faith and credit, and certificates, depositary receipts or other instruments which evidence a direct ownership interest in such obligations or in any specific interest or principal payments due on them, in each case which do not contain provisions permitting the redemption or other prepayment at the option of the issuer. Among the conditions to CFC's making the election to have its entire indebtedness deemed satisfied and discharged, CFC is required to deliver to the trustee an opinion of counsel to the effect that the deposit and related defeasance would not cause the holders of the subordinated debt securities to recognize income, gain or loss for United States federal income tax purposes and that the holders will be subject to United States federal income tax in the same amounts, in the same manner and at the same times as would have been the case if the deposit and related defeasance had not occurred.

### **Replacement of Subordinated Debt Securities**

CFC will replace any mutilated subordinated debt security at the expense of the holder upon surrender of such mutilated subordinated debt security to the trustee. CFC will replace subordinated debt securities that become destroyed, stolen or lost at the expense of the holder upon delivery to the trustee of evidence of the destruction, loss or theft thereof satisfactory to CFC and the trustee. In the case of a destroyed, lost or stolen subordinated debt security, an indemnity satisfactory to the trustee and CFC may be required at the expense of the holder of such subordinated debt security before a replacement debt security will be issued. (Section 306)

### **Governing Law**

The subordinated indenture and the subordinated debt securities will be governed by, and construed in accordance with, the laws of the State of New York. (Section 112)



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### **The Trustee**

U.S. Bank National Association is the trustee under the subordinated indenture.

### **Limitations on Issuance of Bearer Securities**

Under U.S. federal tax laws, certain limitations on offers, sales and delivery apply to bearer subordinated debt securities. CFC will set forth these limitations, as well as additional information regarding the U.S. federal income tax consequences in respect of a bearer subordinated debt security, in any prospectus supplement providing for the issuance of bearer subordinated debt securities.

## **GLOBAL SECURITIES**

The Depository Trust Company ( DTC ) will act as securities depository for the subordinated debt securities. The securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered certificates will be issued as global securities for each issue of the securities in the aggregate principal amount of such issue, and will be deposited with, or held for the benefit of, DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ( DTCC ). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.

Purchases of the securities under the DTC system must be made by or through direct participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of the securities ( beneficial owner ) is in turn to be recorded on the participants' records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the securities are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the securities, except in the event that use of the book-entry system for the securities is discontinued.

To facilitate subsequent transfers, all the securities deposited by direct participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the securities; DTC's records reflect only the identity of the direct participants to whose accounts such securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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Redemption notices shall be sent to DTC. If less than all of the securities are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in the securities to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the securities. Under its usual procedures, DTC would mail an omnibus proxy to CFC as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the securities are credited on the record date (identified in a listing attached to the omnibus proxy).

Payments of principal and interest and redemption proceeds on the securities will be made to DTC. DTC's practice is to credit direct participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participant and not of DTC, CFC or the trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal and interest and redemption proceeds to DTC is the responsibility of CFC or the trustee, disbursement of such payments to direct participants shall be the responsibility of DTC, and disbursements of such payments to the beneficial owners shall be the responsibility of participants.

DTC may discontinue providing its services as securities depository with respect to the securities at any time by giving reasonable notice to CFC or the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the securities certificates are required to be printed and delivered.

CFC may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the securities certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that CFC believes to be reliable (including DTC), but CFC takes no responsibility for the accuracy thereof. According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

Neither CFC, the trustee nor any underwriter will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to the accuracy of the records of DTC, its nominee or any participant with respect to any ownership interest in the securities, or payments to, or the providing of notice for, participants or beneficial owners.

## **PLAN OF DISTRIBUTION**

CFC may sell the securities being offered hereby:

directly to purchasers,

through agents, or

through underwriters or dealers.

Unless otherwise indicated in the prospectus supplement, any such agent will be acting on a reasonable best-efforts basis for the period of its appointment.

If underwriters are utilized in the sale, CFC will enter into an underwriting agreement with those underwriters and the names of the underwriters and the terms of the transaction will be set forth in the prospectus supplement, which will be used by the underwriters to make resales of the securities or warrants in respect of which this prospectus is delivered to the public.



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If a dealer is utilized in the sale of any of the securities, CFC will sell such securities to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale.

The agents and underwriters may be deemed to be underwriters and any discounts, commissions or concessions received by them from CFC or any profit on the resale of the securities or warrants by them may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. Any such person who may be deemed to be an underwriter and any such compensation received from CFC will be described in the prospectus supplement.

Under agreements entered into with CFC, agents and underwriters who participate in the distribution of the securities may be entitled to indemnification by CFC against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribution with respect to payments which the agents or underwriters may be required to make.

If indicated in the prospectus supplement, CFC will authorize agents and underwriters to solicit offers by certain institutions to purchase the securities from CFC at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on the date stated in the prospectus supplement. Each contract will be for an amount not less than, and unless CFC otherwise agrees the aggregate principal amount of the securities sold pursuant to contracts will be not less nor more than, the respective amounts stated in the prospectus supplement. Institutions with whom contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions, but will in all cases be subject to CFC's approval. Contracts will not be subject to any conditions except that the purchase by an institution of the securities covered by its contract shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which such institution is subject. A commission indicated in the prospectus supplement will be granted to agents and underwriters soliciting purchases of the securities pursuant to a contract accepted by CFC. Agents and underwriters will have no responsibility in respect of the delivery or performance of contracts.

The place and time of delivery for the securities in respect of which this prospectus is delivered are set forth in the supplement.

Each underwriter, dealer and agent participating in the distribution of any of the securities which are issuable in bearer form will agree that it will not offer, sell or deliver, directly or indirectly, the securities in bearer form in the United States or its possessions or to United States persons (other than qualifying financial institutions) in connection with the original issuance of the securities. See Limitations on Issuance of Bearer Securities.

All the securities will be a new issue of securities with no established trading market. Any underwriters to whom the securities are sold by CFC for public offering and sale may make a market in such securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the securities.

Certain of the underwriters or agents and their associates may engage in transactions with and perform services for CFC in the ordinary course of business.

In connection with offerings made hereby, the underwriters or agents may purchase and sell the securities in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the underwriters or agents in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the debt securities, and short positions created by the underwriters or agents involve the sale by the underwriters or agents of a greater aggregate principal amount of securities than they are required to purchase from CFC. The underwriters or agents also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the securities sold in an offering may be reclaimed by the underwriters or agents if such securities are repurchased in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the securities, which may be higher than the price that might otherwise prevail in the open market. These activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

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**LEGAL OPINIONS**

The validity of the securities offered hereby and certain United States tax matters in connection with an offering of the securities will be passed upon for CFC by Hogan Lovells US LLP, Columbia Square, 555 Thirteenth Street NW, Washington, D.C. The agents or underwriters, if any, will be represented by Dewey & LeBoeuf, LLP, 1301 Avenue of the Americas, New York, New York. Dewey & LeBoeuf, LLP from time to time has performed and may perform legal services for CFC.

**EXPERTS**

The consolidated financial statements incorporated in this Prospectus by reference from CFC's Annual Report on Form 10-K for the year ended May 31, 2011 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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**National Rural Utilities  
Cooperative Finance Corporation**

**\$400,000,000**

**4.75% Fixed-to-Floating Rate Subordinated Notes due 2043**

**(Subordinated Deferrable Interest Notes)**

**Prospectus Supplement**

*Joint Book-Running Managers*

**J.P. Morgan**

**RBC Capital Markets**

**RBS**

*Senior Co-Managers*

**KeyBanc Capital Markets**

**Mitsubishi UFJ Securities**

**Mizuho Securities**

**PNC Capital Markets LLC**

**Scotiabank**

**US Bancorp**