

Item 1 – Cover Page

Nantahala Capital Management, LLC

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March 30, 2015

This Brochure provides information about the qualifications and business practices of Nantahala Capital Management, LLC (“Nantahala” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at 203-404-1172 or paul@nantahalapartners.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Nantahala is a registered investment adviser with the SEC. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Investment Adviser provide you with information based on which you determine to hire or retain an Investment Adviser.

Additional information about Nantahala also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This firm brochure (“Brochure”) was prepared for Nantahala’s annual updating amendment for its fiscal year ending December 31, 2014. Nantahala is currently registered as an investment adviser with the SEC.

The following is a summary of material changes made to this Brochure since the last annual update made March 31, 2014:

- Item 4 is revised to update discretionary assets under management as of December 31, 2014 and to include Nantahala's approximate regulatory assets under management (RAUM) as well as approximate Nantahala's assets under management (AUM) based on the net asset values of the Funds and Separate Accounts;
- Item 13 is revised to clarify the nature of review of Nantahala's client accounts and the titles of the supervised persons who conduct the review.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting Paul Rehm at (203) 404-1172 or paul@nantahalapartners.com.

Additional information about Nantahala is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with Nantahala who are registered, or are required to be registered, as investment adviser representatives of Nantahala.

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Item 4 – Advisory Business

A. Description of the Advisory Firm

Nantahala Capital Management, LLC, a Massachusetts limited liability company (“Nantahala” or the “Firm”), is the investment manager to the Clients, as defined below. Nantahala was organized in May 2004. Wilmot B. Harkey and Daniel J. Mack are the principal owners and Managing Members of Nantahala.

B. Types of Advisory Services

Nantahala provides investment advice and management to privately placed investment funds including limited partnerships (the “Partnerships”) and non-U.S. companies of which Nantahala is the investment manager (the “Offshore Funds,” jointly with the Partnerships, the “Funds”). The Offshore Funds pursue their investment activities by investing all of their assets in the Partnerships in a mini-master structure. Nantahala’s clients also include separately managed accounts (“Separate Accounts”), primarily for other pooled investment vehicles. The Funds and Separate Accounts are jointly referred to herein as “Clients.”

The Clients’ investment objective is to seek superior and consistent risk-adjusted returns. Nantahala focuses on investments in equity, fixed-income, and equity-derivative securities. Nantahala will, however, invest in other asset classes of securities as opportunities arise. Nantahala intends to achieve the Clients’ objectives through value-oriented securities selection and disciplined risk management.

The Clients are offering interests (the “Interest(s)”) to certain qualified investors as described in response to Item 7, below (such investors or prospective limited partners are referred to herein as “Investors”).

C. Client Tailored Services and Client Imposed Restrictions

Advisory services are tailored to achieve the Clients’ investment objectives. Generally, Nantahala has the authority to select which and how many securities and other instruments to buy or sell without consultation with the Clients or their Investors. Arrangements with Separate Accounts may vary.

D. Wrap Fee Programs

Nantahala does not participate in wrap-fee programs.

E. Amounts Under Management

Nantahala's regulatory assets under management (RAUM) as of December 31, 2014 was approximately:

Discretionary Amounts:	Non-Discretionary Amounts:	Date Calculated:
\$668,700,000	\$0	December 31, 2014

Nantahala's assets under management based on the net asset value of its Funds and Separate Accounts as of December 31, 2014 were approximately:

Discretionary Amounts:	Non-Discretionary Amounts:	Date Calculated:
\$312,500,000	\$0	December 31, 2014

Item 5 – Fees and Compensation

A. Fee Schedule

1. Management Fee

From the Funds, Nantahala typically receives a monthly or quarterly asset-based management fee calculated as a percentage of each Investor's capital account, payable monthly in advance, or quarterly, in arrears, depending on the specific Fund. The management fee typically ranges between 1.0% and 2.0% annually. From Separate Accounts, Nantahala generally receives fees comparable to those paid by the Funds; however, fee structures are subject to negotiation and may vary from those paid by the Funds.

2. Incentive Allocation or Fee

Nantahala generally receives a performance allocation or fee equal to a percentage of the net income allocated to each Investor for the year, subject to a "high water mark" procedure such that the incentive allocation or fee is taken only to the extent net income allocated to that Investor exceeds any cumulative losses that were allocated to that Investor for earlier periods and that have not been recovered. This incentive allocation or fee is generally 20% and is typically made at the end of each calendar year.

The incentive allocation or fee will only be charged to accounts of those Investors who are "qualified clients" as defined in Rule 205-3 of the Investment Advisers Act of 1940.

Fees and other compensation are negotiable in certain circumstances and arrangements with any particular Investor may vary. Although Nantahala believes its fees are

competitive, lower fees for comparable services may be available from other investment advisers.

B. Payment of Fees

Advisory fees, incentive allocations or fees, and third-party fees (discussed below) are generally deducted from Client assets. Advisory fees, which are paid in advance, are withdrawn at the beginning of the month or quarter, depending on the Fund or Separate Account. Incentive allocations or fees are generally allocated or paid as of the last business day of the calendar year and as of any date on which an Investor makes a withdrawal or receives a distribution from such Investor's capital account(s).

C. Third Party Fees

The Clients shall generally pay such costs and expenses as Nantahala shall reasonably determine to be necessary, appropriate, or advisable to carry on its business and realize its objective, which may include but are not limited to: (i) advisory fees; (ii) all general investment expenses (i.e., expenses which Nantahala reasonably determines to be directly related to the investment of a Client's assets); (iii) all administrative, legal, accounting, auditing, record-keeping, tax form preparation, compliance and consulting costs and expenses; (iv) fees, costs and expenses of third-party service providers that provide such services; and, (v) any extraordinary expenses, among other expenses. Investors should refer to a Fund's offering documents or a Separate Account's governing documents for a full disclosure of costs and expenses that may be borne by the Clients.

Nantahala's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Clients. Such charges, fees, and commissions are exclusive of and in addition to Nantahala's advisory fee, and Nantahala shall not receive any portion of these commissions, fees, and costs.

Please see Item 12 of this Brochure for more information about Nantahala's brokerage arrangements for its Clients.

D. Prepayment of Fees

Nantahala generally does not permit withdrawals on dates other than the last day of each calendar month. In the event that Nantahala makes an exception to this policy, it may agree to pro rate the management fee in whole or in part, in its sole direction.

E. Outside Compensation for the Sale of Securities

Neither Nantahala nor its supervised persons accepts compensation for the sale of securities or other investment products outside of its association with Nantahala.

The foregoing response to Item 5 represents Nantahala's basic compensation arrangements. The management fees and incentive allocations or fees described above are structured to comply with Rule 205-3 under the Advisers Act and applicable state laws.

Item 6 – Performance-Based Fees and Side-By-Side Management

As discussed in Item 5.A., in addition to advisory fees, Nantahala generally receives a performance allocation or fee equal to a percentage of the net income allocated to each Investor for the year.

The performance allocation or fee may provide a possible incentive for Nantahala to make riskier or more speculative investments on behalf of a Client than those which would be recommended under a different fee arrangement. In addition, this arrangement may cause Clients to pay a greater expense than if such fees were not charged. Notwithstanding this potential incentive, Nantahala will evaluate investments in a manner that it considers to be in the best interest of the Clients, given those Clients' investment objectives, investment strategies, suitability of the investment, and risk profile.

To the extent that there may be differences in Nantahala's compensation arrangements, such circumstances could create an incentive for Nantahala to manage Client portfolios so as to favor a portfolio that pays performance-based compensation over one that did not. Notwithstanding this conflict, Nantahala will allocate transactions and opportunities among the Clients' accounts in a manner it believes to be as equitable as possible, considering each Client's objectives, programs, limitations, and capital available for investment.

Item 7 – Types of Clients

Nantahala provides investment advice and management to the Partnerships, Offshore Funds, and Separate Accounts. Separate Account clients may include funds of funds and endowments.

Nantahala may in the future provide the same or similar services to other privately placed investment funds and/or separately managed accounts.

Prospective Investors in the Funds must meet eligibility criteria and are subject to certain withdrawal requirements and limitations. Depending on the Fund, Interests are offered to "accredited investors" (as defined in Regulation D under the Securities Act of 1933), "qualified clients" (as defined in Rule 205-3 under the Investment Advisers Act of 1940) and/or to "qualified purchasers" (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended). Shares in the Offshore Funds are offered to non-U.S. persons and a limited number of U.S. persons who are: "qualified purchasers," "accredited

investors”, and exempt from U.S. federal income taxation. Generally, similar terms will apply to Separate Accounts, though Investors in such separate accounts may negotiate terms that differ or are more favorable than those for the Funds.

The minimum initial investment in the Funds is \$1,000,000, subject to waiver at the discretion of Nantahala.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Investing in securities involves risk of loss that Clients and their Investors should be prepared to bear. Please refer to the Funds’ offering documents for a more detailed discussion of Nantahala’s investment strategy and related risks.

A. Methods of Analysis and Investment Strategies

Nantahala seeks to provide Clients with superior risk-adjusted returns on their capital. There can be no assurance that the Clients will achieve this objective or that substantial losses will not be incurred.

Nantahala practices research intensive, fundamental security selection and bases its investment decisions on internally generated research and research obtained from outside sources. The Clients may take long and short positions in a wide range of public and private equity and debt securities and derivatives, including, but not limited to, listed equities, when-issued equities, bonds, listed put or call options, OTC derivatives, loans, and other instruments in implementing its strategies and, in certain cases, these positions are leveraged, either through outright borrowings or through leverage embedded in derivatives acquired by the Clients.

Nantahala focuses on intrinsic value by identifying securities which are mispriced relative to the real economic value they represent, and on the expected timing for the mispricing to be corrected by market forces. The Clients generally invest in securities Nantahala believes are substantially mispriced and are likely to revalue in the short- to medium-term. With a process that focuses on not only the long-term value of a security but also the reasons a security might be mispriced, Nantahala strives to further reduce risk by attempting to avoid situations where long-term value may never be realized.

Nantahala’s approach to assessing a particular security’s risk characteristics divides risk into two types: 1) the specific risks of the security; and 2) the general risks associated with the security’s asset class or sector. Nantahala manages the first type of risk by appropriately allocating capital, meaning the riskier a security appears to be, the smaller a portion of capital can be allocated to it. The second type of risk is managed by taking opposing positions to neutralize general exposures Nantahala does not wish to take. For example, if Nantahala favors a particular retailer over others but does not want to be

exposed to the general risk of the retail sector, then Nantahala will take positions against other retailers so that the net exposure to the overall retail sector is neutralized. Generally, Nantahala seeks to build a portfolio from a bottoms-up basis that minimizes systemic risk in the portfolio.

From a top-down basis, Nantahala's portfolio risk management philosophy is designed to protect the portfolio from large and difficult to predict moves in markets and individual securities via 1) balancing systemic risks, 2) large margins of safety, 3) medium diversification, 4) long optionality and 5) modest use of leverage.

Nantahala will pursue investment opportunities in a variety of asset classes, investing solely for profit, while employing a variety of hedging methodologies in an attempt to hedge risks associated the Clients' portfolios. Without limiting the nature of the securities or the nature of the strategies in which the Clients may invest, the following represent some of the strategies the Nantahala will deploy including:

Undervalued Equity Securities. Nantahala looks at four elements in determining whether a security is undervalued: 1) the value of the business; 2) the value of the security; 3) the price of the security; and 4) the relationship between value and price. Nantahala seeks to make an investment at a price that will reflect a "margin of safety," a discount to estimated value that compensates the Client sufficiently for the risks inherent in the security.

Overvalued Equity Securities. Many of the points made in the section on undervalued equities pertain here except with the opposite objective of attempting to profit from price declines by selling short overvalued securities. Reasons for establishing a short position on a security may include, but are not limited to: little or no revenue growth, a perilous financial condition, questionable management, evidence of accounting irregularities, or a poor competitive position. Shorting a security often involves additional risks of "buy-in", which is the forced closure of the short position by the prime broker in order to return the borrowed security, and the unlimited loss potential of a short position due to the lack of a theoretical ceiling value.

Risk Arbitrage. Nantahala may employ risk arbitrage in assessing the probability that an announced transaction will be completed, the timing of such a transaction, and the risk that the terms of the transaction will change. The transaction may be a merger, tender offer, sale, liquidation, spin-off, exchange offer, or other form of asset conversion. The assessment of probability, risk, valuation, and timing requires analysis of business, financial, regulatory, and legal issues specific to each transaction. A risk arbitrage investment may involve long or short positions, or a combination of the two.

High-Yield Securities. Economic cycles and changes in interest rates, in addition to issuer-specific developments, sometimes produce attractive opportunities to purchase or short high-yield securities. These securities include debt and preferred stock rated below investment grade. Many of these companies are highly leveraged and have complex capital structures. The securities of such issuers may present investment opportunities due to

limited research coverage, a greater than average sensitivity to overall market movements, and the analytical challenges involved in determining the fair value of such securities.

Financially Distressed Issuers. The Clients may from time to time purchase or short debt securities of issuers experiencing financial distress present opportunities since the market often fails to value accurately the issuer's securities or to assess the likely effect of future events. Debt investments may take the form of the purchase of bank loans, equipment leases, trade payables and traded debt, or preferred stock of companies which may undergo Chapter 11 bankruptcy proceedings, financial reorganizations, exchange offers, liquidations, and other extraordinary transactions. The Clients may also invest in equity securities of such companies.

Capital Structure Arbitrage. The Clients will also engage in modified capital structure arbitrage which consists of the purchase of securities of an issuer coupled with the sale of other securities of the same issuer to take advantage of attractive price disparities and/or otherwise to hedge certain of its exposure given that particular issuer's financial situation. Nantahala will seek to evaluate the terms and structure of an issuer's debt and equity securities relative to each other and to the issuer's business risk as well as an expected revaluation event. Nantahala will generally seek capital structure arbitrage situations in which a revaluation catalyst is anticipated in the short to medium term. In addition, the Clients may be net long or net short.

Leverage. The Clients have the power to borrow and may do so when deemed appropriate by Nantahala for reasons such as enhancing the Clients' return or meeting redemptions that would otherwise result in the premature liquidation of investments.

Long and Short Positions. The Clients' investments will generally be held in both "long" and "short" positions for capital appreciation, income, or hedging purposes. With respect to hedging, the Clients' securities may be used to protect both against broad market declines as well as against more specific risks that Nantahala may wish to avoid.

Control Positions. From time to time, a Client may purchase a large enough position in a company to have some influence, friendly or unfriendly, on the management and/or board of directors of that company. The Client may propose shareholder resolutions at the company's annual meeting, hire proxy solicitation firms to oppose company sponsored resolutions, nominate one or more persons (whether affiliated with Nantahala or not) to the board of directors, or otherwise attempt to influence the company's direction.

Foreign Securities. Nantahala will monitor investment opportunities in capital markets outside of the United States, as well as in foreign securities traded in domestic markets. Investment decisions will be based upon criteria similar to those employed in U.S. markets with additional consideration being given to currency risk and the host country's political, regulatory and tax environment. Nantahala will hedge potential foreign currency risk where appropriate.

Risk Management and Diversification. Nantahala's commitment to risk management is significant and it will employ a disciplined approach to managing risk. Nantahala focuses on security selection in an attempt to mitigate risk. Although Clients will have no fixed diversification requirements, Nantahala seeks to mitigate security selection risk by hedging, position and industry size limits, loss limit strategies, and other risk management considerations.

Nantahala is not limited with respect to the types of investment strategies it may employ, the markets or instruments in which it may invest or the percentage of its capital that may be invested in a single security. Clients may also enter into joint venture arrangements, co-invest with third parties, or otherwise participate in pooled investment vehicles with others. Depending on conditions and trends in securities markets and the economy generally, Nantahala may pursue other objectives or employ other techniques it considers appropriate and in the best interests of the Clients.

Investing in securities involves risk of loss that Clients and Investors should be prepared to bear.

B. Risks of Investments and Strategies Utilized

Risks Associated with Investments in Distressed Securities. The Clients invest in "below investment grade" securities and obligations of domestic and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Some of these securities may not be publicly traded, and it therefore may be difficult to obtain information as to the true condition of such issuers. Additionally, in certain periods, there may be little or no liquidity in markets for these securities. Such investments also may be affected adversely by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, or disenfranchise particular claims.

Bank Loans. The Clients' investment program may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Clients to directly enforce their rights with respect to participations.

Bankruptcy Claims. The Clients may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be

able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Clients. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Such investments can result in a total loss of principal. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. Nantahala, on behalf of the Clients, may elect to serve, directly or through an affiliate, on creditors' committees, equity holders' committees, or other groups to ensure preservation or enhancement of the Clients' position as creditors or equity holders. In addition, a portion of the Clients' assets will be invested in securities and loans with limited liquidity. If the Clients are represented by Nantahala on a committee or group, they may be restricted or prohibited under applicable law from disposing of its investments in such company while it continues to be represented on such committee or group.

Loans of Portfolio Securities. Clients may lend their portfolio securities. In the event of the bankruptcy of the other party to a securities loan there could be delays in recovering the securities lent. To the extent that the value of the securities the Clients lent has increased, the Clients could experience a loss if such securities are not recovered.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by the Clients will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Commodities and Derivative Investments. The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand

relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies.

Highly Volatile Markets. The prices of financial instruments in which the Clients may invest can be highly volatile. Price movements of forward and other derivative contracts in which the Clients' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Clients are subject to the risk of failure of any of the exchanges on which their positions trade or of its clearinghouses.

Use of Leverage and Financing. Nantahala may leverage the Clients' capital because the use of leverage may enable the Clients to achieve a higher rate of return. Any event which adversely affects the value of an investment by the Clients would be magnified to the extent the Clients are leveraged. The cumulative effect of the use of leverage by the Clients in a market that moves adversely to the Clients' investments could result in a substantial loss to the Clients which would be greater than if the Clients were not leveraged.

Hedging Transactions. Nantahala may not anticipate a particular risk so as to hedge against it. While the Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Clients than if it had not engaged in any such hedging transactions. For a variety of reasons, Nantahala may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Clients from achieving the intended hedge or expose the Clients to risk of loss.

Derivatives and Hedging. The Clients may invest and trade in a variety of derivative instruments, both to hedge the Clients' portfolios and for profit. The Clients' ability to profit or avoid risk through investment or trading in derivatives will depend on Nantahala's ability to anticipate changes in the underlying assets, reference rates, or indices.

Short Selling. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Clients of buying those securities to cover the short position. There also can be no assurance that the securities necessary to cover a short position are available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Forward Trading. Forward contracts and options thereon are not traded on exchanges and are not standardized. Disruptions can occur in any market traded by the Clients due to unusually high trading volume, political intervention or other factors. The imposition of

controls by governmental authorities might also limit such forward (and futures) trading to less than that which Nantahala would otherwise recommend, to the possible detriment of the Clients. Market illiquidity or disruption could result in major losses to the Clients.

Limited Diversification. It is possible that Nantahala may select investments that are concentrated in a limited number or types of investments. This limited diversity could expose the Clients to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those investments.

Non-U.S. Securities. Investments in securities of non-U.S. issuers (including non-U.S. governments) pose a range of potential risks which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers.

Emerging Markets. In addition to the risks associated with investments outside of the United States, investments in emerging markets (i.e., the developing countries) may involve additional risks. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries and little or no market may exist for the securities. Clients may be subject to a number of additional risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations.

Illiquid Investments. Securities, bank debt and other claims, and other assets are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Clients may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale.

Valuation. Securities which Nantahala believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and/or within the time frame Nantahala anticipates. In particular, purchasing securities at prices which Nantahala believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further. Similarly, securities deemed overvalued and sold short, may continue to appreciate further.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment with Nantahala. Prospective Investors should read the entire Brochure, including the potential conflicts of interest described in Item 11 as well the relevant Fund's offering documents, other materials that may be provided by Nantahala and consult with their own advisers before deciding to subscribe for Interests.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Nantahala and its management personnel have no reportable disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

A. Registration as a Broker-Dealer or Broker-Dealer Representative

Neither Nantahala nor its management persons are registered as a broker-dealer or broker-dealer representative.

B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor

Neither Nantahala nor its management persons are registered as futures commission merchant, commodity pool operator, or a commodity trading advisor.

C. Relationships Material to this Advisory Business and Possible Conflicts of Interest

Neither Nantahala nor any of its management persons has any other relationships or arrangements with any related persons that are material to Nantahala's advisory business.

D. Selection of Other Advisers or Managers

Nantahala does not utilize nor select other advisers or third party managers. All assets are managed by Nantahala.

Item 11 – Code of Ethics, Participation or Interest in *Client* Transactions and Personal Trading

A. Code of Ethics.

Nantahala has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code governs the activities of each member, officer, director and employee of Nantahala, and any individual deemed by Nantahala to be an “access person” under the Investment Advisor's Act Rule 204A-1 based on the nature of their relationship with Nantahala or services performed (collectively herein, “Employees”). Nantahala holds its Employees to a high standard of integrity and business practices that reflects its fiduciary duty to the Client. In serving its Client, Nantahala strives to avoid conflicts of interest or the appearance of conflicts of interest in connection with the personal trading activities of its Employees and Client securities transactions. When persons covered by the Code engage in personal securities transactions, they must adhere to the following general principles as well as to the Code’s specific provisions: (a) at all times the interests of Client must be paramount; (b) personal transactions must be conducted consistent with the Code in manner that avoids any actual or potential conflict of interest; and (c) no inappropriate advantage should be taken of any position of trust and responsibility. Employees covered by the Code have certain trading restrictions and reporting obligations of their personal securities transactions. Each Employee is provided with a copy of the Code and must annually certify that they have received it and have complied with its provisions. In addition, any Employee who becomes aware of any potential violation of the Code is obligated to report the potential violation to the Chief Compliance Officer.

Although Nantahala’s policies and procedures generally prohibit Employees from trading in the same securities that Nantahala buys or sells for Client Accounts, there may be limited circumstances in which Employees may also personally dispose of the same securities that Nantahala buys or sells for Client accounts, and Employees may own securities of issuers whose securities are subsequently bought for Client accounts. Further, there may be limited circumstances in which Employees may be permitted to buy or sell the same securities that Nantahala buys or sells for Client accounts, and they may own securities of issuers whose securities are subsequently bought for Client accounts. Nantahala’s policy as to such transactions is that neither Nantahala nor its Employees are to benefit from price movements that may be caused by transactions for Client accounts or otherwise because of Nantahala’s recommendations regarding a particular security.

Nantahala will make available a full copy of the Code upon request. A request may be made by calling Paul Rehm at (203) 404-1172 or paul@nantahalapartners.com.

B. Recommendations Involving Material Financial Interests

Neither Nantahala nor its related persons recommends to Clients, or buys or sells for Client accounts, securities in which Nantahala or a related person has a material financial interest.

Situations may arise where certain assets held by one or more Funds and Separate Accounts managed by Nantahala may be transferred to other Funds and Separate Accounts

managed by Nantahala, including for the purpose of rebalancing the portfolios of such funds and investment accounts. Such transactions will be conducted in accordance with, and subject to, Nantahala's fiduciary obligations to the Clients and shall be subject to applicable laws and regulations.

C. Investing Personal Money in the Same Securities as Clients

Nantahala's Employees may in limited circumstances buy or sell the same instruments that Nantahala buys or sells for Client accounts, and they may own securities of issuers whose securities are subsequently bought for Client accounts because of Nantahala's recommendations regarding a particular security. Nantahala's policy is designed (i) to prevent potential legal, business, or ethical conflicts; (ii) to minimize the risk of unlawful trading in any account where Employees have an interest and (iii) to guard against the misuse of confidential information. All personal trading and other activities must avoid any conflict or potential conflict of investor interest. Employees are prohibited from engaging in unlawful trading and any trading that may appear to be improper. Further, Employees are encouraged to invest for the long-term through instruments and opportunities that will not conflict with their responsibility to serve Nantahala's trust.

D. Trading Securities At/Around the Same Time as Clients' Securities

As discussed above, in limited circumstances, Nantahala's Employees may buy or sell securities for themselves that Nantahala also recommends to the Client. Nantahala documents all transactions and conducts diligence to ensure that Client business is transacted before the business of its Employees when similar securities that are not otherwise exempt under the Adviser's Code of Ethics are being bought or sold.

Item 12 – Brokerage Practices

A. Factors Used to Select or Recommending Broker-Dealers

Nantahala seeks to obtain "best execution" of the securities transactions being effected for its Clients' accounts. To fulfill this obligation, Nantahala generally executes securities transactions in such a manner that the Client's total cost or proceeds in each transaction is the most favorable under the circumstances. The determinative factor is not necessarily the lowest possible commission cost, but whether the transaction represents the best qualitative execution. In seeking best execution, Nantahala considers the full range of the broker's services, including the value of research provided and execution capability, commission rate, financial responsibility and responsiveness.

Nantahala's Clients generally authorize Nantahala to select brokers to effect transactions on their behalf. Nantahala has established general criteria to determine which brokers are qualified to provide brokerage services to its Clients, and considers, among others, the following relevant factors:

- quality of execution - accurate and timely execution;
- the actual executed price of the security and the broker's commission rates;
- research (including economic forecasts, investment strategy advice and fundamental advice on individual securities, valuation advice and market analysis), custodial and other services provided by such brokers and/or dealers that are expected to enhance Nantahala's general portfolio management capabilities;
- financial stability and reputation of the broker;
- the size and type of the transaction;
- the difficulty of execution and the ability to handle difficult trades;
- the ability to handle a block order for securities and distribution capabilities; and
- the operational facilities of the brokers and/or dealers involved (including back office efficiency)

Nantahala is not currently receiving soft-dollar items. If it does so in the future, it will amend this Brochure to include appropriate disclosures.

2. Brokerage for Client Referrals

In selecting broker dealers Nantahala may consider the broker dealer's referrals of prospective Client accounts or Investors. To the extent that Nantahala would otherwise be obligated to pay for "finding" services, it has a conflict of interest in considering those services when selecting a broker-dealer. It also faces a conflict because it benefits from increases in the size of its assets under management.

3. Directed Brokerage

Nantahala generally does not direct brokerage. Securities transactions are executed by brokers selected by Nantahala in its discretion and without the consent of the Client or Investors. In the event that a Client or Investor in a Separate Account directs Nantahala to use a specific broker or other Transacting Party, Nantahala will not negotiate the terms and conditions (including commission rates) relating to the services provided by that broker or Transacting Party; Nantahala does not have any responsibility for obtaining for the Client from any such broker or Transacting Party the best prices or particular commission rates with or through any such broker or Transacting Party; and the Client may not obtain rates as low as it might otherwise obtain if Nantahala had discretion to select Transacting Parties other than those chosen by the client.

B. Aggregating Trading for Multiple Client Accounts

Nantahala may (but is not required to) aggregate orders for Client accounts for which it or its principals have trading authority. When it does aggregate orders, Nantahala seeks to allocate investment opportunities among Clients in the fairest possible way taking into account the Clients' best interests. Nantahala follows procedures to ensure that allocations do not involve a practice of favoring or discriminating against any Client or group of Clients. Account performance is never a factor in trade allocations. It is Nantahala's basic policy that no Client for whom Nantahala has investment decision responsibility shall receive preferential treatment over any other Client. In allocating securities among Clients, it is Nantahala's policy that all Clients should be treated fairly and that, to the extent possible, all Clients should receive equivalent treatment.

Nantahala generally manages Clients *pari passu* and unless otherwise instructed, generally places Client orders on an aggregated basis and reviews fills during and at the end of the day.

Unless otherwise instructed or otherwise based on, but not limited to, the factors listed below, allocations of filled orders are made at the end of the trade date to each Client account on a pro-rata basis (generally determined based upon relative net assets in the case of trading activity when adding a new position or the relative size of an existing position in the case of trading activity intended to exit the position). In the case of trading activity that increases a position's size, allocations are made to first bring the Client accounts to a discretionary target position size, which is generally *pari passu* according to relative net assets. Likewise, trading activity that decreases a position's size will generally be allocated to bring the Client accounts to a discretionary target position size, which is generally *pari passu* according to relative net assets. Once a position has reached its discretionary target position size in Client accounts, shares to increase or decrease a position are generally allocated pro rata according to relative net assets. Certain Client accounts with an investment mandate to solely invest in a limited number of securities (rather than in a broad, generally *pari passu* portfolio) ("Non-Pari Passu Accounts") generally will be allocated trades in securities that increase position size (long or short) only after Nantahala's other Client accounts (which trade broad, generally *pari passu* portfolios) have fully reached their discretionary target position size in such securities. When exiting a position entirely, reductions in a position (long or short) will generally be allocated to each Client account, including Non-Pari Passu Accounts, on a pro-rata basis based on the relative size of such existing security position in each client account. Reference to relative net assets above may include the use of leverage. Notwithstanding the above methodology, allocation decisions will be made by Nantahala, in part, based on Nantahala's assessment of investment opportunities in both existing and prospective positions.

Each Client that participates in an aggregated order will participate at the average share price for the order, and transaction costs will be shared pro rata based on each Client's

participation in the transaction. Factors that may be taken into account by Nantahala in allocating securities among Clients:

- The Client's investment objective and strategies;
- The Client's risk profile;
- The Client's tax status or legal reasons;
- The Client's available cash;
- The Client's liquidity requirements.

Finally, a Client may buy or sell specific securities that are not deemed appropriate for other Client accounts at the time, based on investment considerations that differ from the considerations on which decisions as to investments in Client accounts are made. Where execution opportunities for a particular security are limited, Nantahala attempts in good faith to allocate such opportunities among Clients in a manner that, over time, is equitable to all Clients.

Item 13 – Review of Accounts

A. Frequency and Nature of Periodic Review and Who Makes Those Reviews

Nantahala performs various daily, weekly, monthly, quarterly, and annual reviews of all Client accounts to ensure consistency with the Clients' strategies and performance objectives. Asset allocation, cash management, market prospects, and individual issue prospects are considered. The reviews are conducted by portfolio managers Wilmot B. Harkey and Daniel J. Mack. Nantahala's Chief Compliance Officer, Paul Rehm, conducts additional reviews for compliance with investment objectives, guidelines, and/or restrictions.

B. Factors That Will Trigger a Non-Periodic Review of Client Accounts

Reviews may take place more frequently if triggered by economic, market, or political conditions.

C. Content and Frequency of Regular Reports

Investors in the Clients will generally receive unaudited reports of performance monthly and will receive audited year-end financial statements annually.

Item 14 – Client Referrals and Other Compensation

Registered investment advisers are required to disclose all material facts regarding any compensation or other benefits it receives, directly or indirectly, for client referrals. Nantahala has no information applicable to this Item.

Item 15 – Custody

Nantahala satisfies the SEC’s custody requirements by holding client assets with a qualified custodian and providing Investors with audited financial statements by a specified time each year.

Item 16 – Investment Discretion

The Funds’ governing documents and/or a Separate Account’s governing documents, as applicable, generally authorize Nantahala to invest and trade the Clients’ assets in a broad range of investments, to be selected at Nantahala’s sole discretion, with no specific limitations as to type, amount, concentration, or leverage. Further, Nantahala may enter into any type of investment transaction and employ any investment methodology or strategy it deems appropriate. Separate Account Clients may negotiate certain limitation on Nantahala’s investment discretion on a case by case basis.

Pursuant to the Funds’ governing documents and investment management agreements between Nantahala and the Funds (or with Investors in Separate Accounts), each Investor generally designates Nantahala as its attorney-in-fact to execute, certify, acknowledge, file, record and swear to all instruments, agreements and documents necessary or advisable to carrying out the Clients’ business and affairs, including execution of a Fund’s limited partnership agreement. An Investor’s execution of a subscription agreement constitutes its execution of a Client’s governing documents.

Item 17 – Voting Client Securities

Nantahala exercises voting authority over Client proxies and has adopted proxy voting policies and procedures in accordance with Rule 206(4)-6 of the Investment Advisers Act of 1940, as amended. The policies require Nantahala to vote proxies received in a manner consistent with the best interests of the Client.

The policies also require Nantahala to vote Client proxies in the interest of maximizing shareholder value. To that end, Nantahala will vote in a way that it believes, consistent with its fiduciary duty, will cause the value of the issue to increase the most or decline the least. Consideration will be given to both the short and long term implications of the proposal to be voted on when considering the optimal vote. Votes on all matters are determined on a case-by-case basis and in the best interest of Clients. However, the policies permit Nantahala to abstain from voting proxies with respect to shares of a particular security which Nantahala deems to have no value or if the vote is purely administrative in nature or if it believes that its vote will have an immaterial impact on the vote’s outcome. If applicable, Nantahala generally does not vote client proxies with respect to shares of a particular security that have been re-hypothecated pursuant to prime broker agreements or are on loan with prime brokers as of the record date, or where Nantahala does not have a position when voting materials are received.

Nantahala will generally vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock, and for other proposals, voting in accordance with the recommendation of management unless such vote is determined to have an adverse effect on the interest of the Client.

Where a proxy proposal raises a material conflict between Nantahala's interests and the interests of the Client, Nantahala will seek to resolve the conflict. Where the conflict of interest is a personal conflict involving the covering member of the investment team, the covering member of the investment team will abstain from the voting decision, and another member of the investment team will make the voting decision. Nantahala may alternatively disclose material conflicts of interest to Clients and obtain their consent before voting.

Nantahala will provide, upon request, a copy of those policies and procedures and/or information concerning its voting record on account proxy matters. Such a request may be made by calling Paul Rehm at (203) 404-1172 or paul@nantahalapartners.com.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide Investors with certain financial information or disclosures about Nantahala's financial condition. Nantahala has no financial commitment that is reasonably likely to impair its ability to meet contractual commitments to Clients.

Item 19 – Requirements for State-Registered Advisers

Not applicable.