PENNANTPARK INVESTMENT CORP
Form N-2
April 02, 2008

As filed with the Securities and Exchange Commission on April 1, 2008.

Securities Act Registration No. 333-

Investment Company Act of 1940 File No. 814-00736

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM N-2

Registration Statement under the Securities Act Of 1933

Pre-Effective Amendment No. ¨

Post-Effective Amendment No. ¨

PennantPark Investment Corporation

(Exact name of Registrant as specified in its charter)

590 Madison Avenue

15th Floor

New York, NY 10022

(Address of Principal Executive Offices)

(212) 905-1000

(Registrant s Telephone Number, Including Area Code)

Arthur H. Penn

c/o PennantPark Investment Corporation

590 Madison Avenue

15th Floor

New York, NY 10022

(Name and Address of Agent for Service)

Copies to:

Thomas Friedmann, Esq.

David Harris, Esq.

Dechert, LLP

1775 I Street, N.W.

Washington, DC 20006-2401

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box):

x when declared effective pursuant to section 8(c).

If appropriate, check the following box:

¨ This amendment designates a new effective date for a previously filed registration statement.

¨ This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price[1]	Amount of Registration Fee[1]
Common Stock, $0.001 par value[2]		$	$	$
Preferred Stock, $0.001 par value[2]				
Warrants[3]				
Subscription Rights[4]				
Debt Securities[5]				
Total			250,000,000[6]	9,825

(1) Estimated pursuant to Rule 457 solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
(2) Subject to Note 6 below, there is being registered hereunder an indeterminate number of shares of common stock or preferred stock as may be sold, from time to time.
(3) Subject to Note 6 below, there is being registered hereunder an indeterminate number of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.
(4) Subject to Note 6 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.
(5) Subject to Note 6 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed $250,000,000.
(6) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed $250,000,000.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

Subject to Completion

PRELIMINARY PROSPECTUS

April 1, 2008

$250,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

PennantPark Investment Corporation, a Maryland corporation organized on January 11, 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC under the Investment Company Act of 1940 (the 1940 Act). In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended (the Code).

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. From time to time, we may also invest in public companies whose securities are not thinly traded. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt and, to a lesser extent, equity investments.

We fund a portion of our investments with borrowed money, a practice commonly known as leverage. We can offer no assurances that we will achieve our investment objectives.

We are managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, together or separately, up to $250,000,000 of our common stock, preferred stock, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities or subscription rights, which we refer to, collectively, as the securities. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders, or (3) under such circumstances as the Securities and Exchange Commission, or the SEC, may permit.

Our common stock has been approved for quotation on NASDAQ under the symbol PNNT . The last reported closing price for our common stock on March 24, 2008 was $8.70 per share.

This prospectus and any accompanying prospectus supplement contains important information you should know before investing in our securities. Please read them before you invest and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 590 Madison Avenue, New York, NY 10022 or by telephone at (212) 905-1000 or on our website at *www.pennantpark.com.* The SEC also maintains a website at www.sec.gov that contains such information free of charge.

Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in the Company in Risk Factors beginning on page 11 of this prospectus.

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

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

Prospectus dated , 2008

You should rely only on the information contained in this prospectus and any accompanying prospectus supplement when considering whether to purchase any securities offered by this prospectus. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus and any accompanying prospectus supplements. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell and seeking offers to buy, securities only in jurisdictions where offers are permitted. The information contained in or incorporated by reference in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus or such prospectus supplement. We will update these documents to reflect material changes only as required by law. Our business, financial condition, results of operations and prospects may have changed since then.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to $250,000,000 of our common stock, preferred stock, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities and subscription rights to purchase common stock on the terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the headings Additional Information and Risk Factors before you make an investment decision.

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. In this prospectus and accompanying prospectus supplement, if any, except where the context suggests otherwise, the terms we, us, our and PennantPark refer to PennantPark Investment Corporation; PennantPark Investment Advisers or the Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or the Administrator refers to PennantPark Investment Administration, LLC.

PennantPark Investment Corporation

PennantPark Investment Corporation, a Maryland corporation organized on January 11, 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Code.

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. From time to time, we may also invest in public companies whose securities are not thinly traded. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt and, to a lesser extent, equity investments.

PennantPark Investment seeks to create a diversified portfolio that includes mezzanine debt, senior secured loans and equity investments by investing approximately $10 to $50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies. In addition, we expect our debt investments to range in maturity from three to ten years. In this prospectus, we use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion.

While our primary focus is to generate current income and capital appreciation through debt and equity investments in thinly traded or private U.S. companies, we may invest up to 30% of the portfolio in opportunistic investments. These investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies that are not thinly traded and securities of companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

The following table provides highlights from the selected financial data disclosed on page 9 as of and for the periods ended December 31, 2007 and September 30, 2007:

(In thousands, except yield and per share data)	Three months ended December 31, 2007 (unaudited)	Period from January 11, 2007 (inception) to September 30, 2007
Statement of operations data		
Net investment income	$ 4,732	$ 7,305
Net realized and unrealized loss	(16,269)	(24,004)
Net decrease in net assets resulting from operations	(11,537)	(16,699)
Per share data		
Distributions declared per share	0.22	0.36
Net asset value per share(1)	12.07	12.83
Balance sheet data (at period end)		
Total net asset value	254,221	270,393
Total assets	429,679	555,008
Total investment portfolio(2)	423,971	548,976
Borrowings outstanding	91,500	10,000
Yield on debt portfolio (at period end)	10.4%	10.1%(3)

(1) Stock began trading on April 19, 2007. The market price per share as of December 31, 2007 and September 30, 2007, respectively, was $10.02 and $13.40.

(2) Includes cash equivalents.

(3) Unaudited.

About PennantPark Investment Advisers

Our investment activities are managed by the Investment Adviser under an investment management agreement (the Investment Management Agreement). The Investment Adviser is responsible for sourcing potential investments, conducting research on prospective investments, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. The Investment Adviser is led by Arthur H. Penn, its founder and the founder of PennantPark. Mr. Penn has over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. He has been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in each of these businesses. Mr. Penn is a Co-founder and former Managing Partner of Apollo Investment Management, L.P., or Apollo Investment Management, which is the Investment Adviser of Apollo Investment Corporation, or Apollo Investment, a publicly traded business development company. Mr. Penn served as the Chief Operating Officer and a member of the investment committee of Apollo Investment from its inception in April 2004 through February 2006 and was President and Chief Operating Officer from February 2006 through November 2006.

During the period in which Mr. Penn was the Chief Operating Officer, Apollo Investment raised approximately $930 million of gross proceeds in an initial public offering in April 2004 and raised an additional $308 million in a follow-on offering of public equity in March 2006. Mr. Penn supervised the negotiation and execution of a senior secured credit facility with a syndicate of banks which, as amended, provides for borrowings up to $2.0 billion. During Mr. Penn s tenure with Apollo Investment, it invested approximately $2.8 billion in 73 companies in partnership with 54 different financial sponsors.

During his more than 20-year career in the financial services industry, Mr. Penn has developed a network of financial sponsor relationships as well as relationships with management teams, investment bankers, attorneys and accountants that we believe will provide us with access to substantial investment opportunities.

Our Investment Adviser has three experienced investment professionals, in addition to Mr. Penn, who are partners of the firm. These investment professionals, Geoffrey Chang, Salvatore Giannetti III and Whit Williams, have a combined 44 years of experience in the mezzanine, private equity and leveraged finance businesses. See Management, Certain Relationships and Transactions Investment Management Agreement and Risk Factors Risks Relating to our Business and Structure.

Administration

Under our administration agreement (the Administration Agreement), the Administrator furnishes us with clerical, bookkeeping and record keeping services and also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC. The Administrator oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to provide such assistance. See Certain Relationships and Transactions Administration Agreement and Risk Factors Risks Relating to our Business and Structure.

Our Administrator has experienced professionals including, Aviv Efrat, who serves as our Chief Financial Officer and Treasurer. Mr. Efrat, who is also a Managing Director of PennantPark Investment Administration, has extensive experience in finance and administration of registered investment companies, having served for a decade as a Director at BlackRock, Inc., a leading investment firm.

Competitive Advantage

We believe that we have the following competitive advantages over other capital providers in middle-market companies:

Disciplined Investment Approach with Strong Value Orientation

We employ a disciplined approach in selecting investments that meet our value-oriented investment criteria employed by the Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We do not intend to pursue short-term origination targets. We believe our approach will enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through our Investment Adviser, conduct a rigorous due diligence process that draws from our Investment Adviser s experience, industry expertise and network of contacts. Among other things, our due diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations.

Ability to Source and Evaluate Transactions through our Investment Adviser s Research Capability and Established Network

The management team of the Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that we believe enable us to evaluate investment opportunities effectively in numerous industries, as well as provide us access to substantial information concerning those industries. We identify potential investments both through active origination and through dialogue with numerous financial sponsors, management teams, members of the financial community and corporate partners with whom professionals of our Investment Adviser have long-term relationships.

Flexible Transaction Structuring

Our Investment Adviser seeks to minimize the risk of capital loss without foregoing potential for capital appreciation. In making investment decisions, we seek to invest in companies that we believe can generate positive risk-adjusted returns.

We believe the in-depth coverage and experience of Mr. Penn, as well as that of the other investment professionals of our Investment Adviser, enable us to invest throughout various stages of the economic cycle and provide us with ongoing market insights in addition to a significant investment sourcing engine.

Longer Investment Horizon with Attractive Publicly Traded Model

Unlike private equity and venture capital funds, we are not subject to standard periodic capital return requirements. Such requirements typically stipulate that funds raised by a private equity or venture capital fund, together with any capital gains on such invested funds, can only be invested once and must be returned to investors after a pre-agreed time period. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles enables us to generate returns on invested capital and to be a better long-term partner for our portfolio companies.

Competition

Our primary competitors provide financing to middle-market companies and include other business development companies, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased prior to downturn in the credit market which began in mid-2007 among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies had intensified. However, we believe that there has been a reduction in the amount of debt capital available for lending in leveraged buyout transactions since the downturn in the credit markets, which began in mid-2007. We believe this has resulted in a less competitive environment for making new investments.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company.

We use the industry information available to our Investment Adviser to assess investment risks and determine appropriate pricing for our investments in portfolio companies. We benefit from the relationships of Messrs. Penn, Chang, Giannetti and Williams and other of our senior investment professionals retained by our Investment Adviser, who enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we invest. For additional information concerning the competitive risks we face, please see Risk Factors Risks Relating to our Business and Structure-We operate in a highly competitive market for investment opportunities.

Leverage

We maintain a five-year, multi-currency $300 million senior secured credit facility with a group of lenders, under which we had $10 million and $91.5 million of indebtedness outstanding at September 30, 2007 and December 31, 2007, respectively. Pricing on borrowings under our credit facility is set at 100 basis points over LIBOR. We expect that our substantial debt capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. See note 11 to our financial statements.

Operating and Regulatory Structure

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of PennantPark. PennantPark Investment Advisers is an Investment Adviser that is registered under the Investment Advisers Act of 1940, or the Advisers Act. Under our Investment Management Agreement, we pay PennantPark Investment Advisers an annual base management fee based on our gross assets as well as an incentive fee based on our performance. See Certain Relationships and Transactions Investment Management Agreement.

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See Regulation. We have elected to be treated for federal income tax purposes as a RIC. For more information, see Material U.S. Federal Income Tax Considerations.

Use of Proceeds

We intend to use the net proceeds from selling securities pursuant to this prospectus to reduce our outstanding obligations under our Credit Facility, invest in new or existing portfolio companies, or for other general corporate purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

We anticipate that substantially all of the net proceeds of an offering will be invested in new or existing portfolio companies within two years of issuance, depending on the availability of appropriate investment opportunities consistent with our investment objectives and market conditions. The management fee payable by us will not be reduced while our assets are invested in such securities. See Regulation Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

Dividends on Common Stock

We intend to continue to distribute quarterly dividends to our common stockholders. The amount and general timing of our quarterly dividends, if any, will be determined by our board of directors. For more information, see Distributions.

Dividends on Preferred Stock

We may issue preferred stock from time to time, although we have no immediate intention to do so. Any such preferred stock will be a senior security for purposes of the 1940 Act and, accordingly, subject to the leverage test under that Act. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock will be quarterly and for any auction rate preferred stock, or ARPS, will be weekly and subject to extension. With respect to ARPS, we expect the dividend rate to be variable and determined for each dividend period. See Risk Factors Risks Related to Issuance of our Preferred Stock.

Dividend Reinvestment Plan

We have adopted an opt-out dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. Registered stockholders must notify our transfer agent in writing if they wish to opt-out of the dividend reinvestment plan. For more information, see Dividend Reinvestment Plan.

Plan of Distribution

We may offer, from time to time, up to $250,000,000 of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc., or FINRA, the maximum compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of the offering of such securities. For more information, see Distributions.

Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on NASDAQ under the symbol PNNT . Our Internet website address is www.pennantpark.com. Information contained on our website is not incorporated by reference into this prospectus or any supplements to this prospectus, and you should not consider information contained on our website to be part of this prospectus or any supplements to this prospectus.

FEES AND EXPENSES

The following table will assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The following table should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in the Company.

Stockholder transaction expenses	
Sales load (as a percentage of offering price) %	(1)
Offering expenses (as a percentage of offering price)	%(2)
Total common stockholder expenses (as a percentage of offering price) %	%(3)
Estimated annual expenses (as a percentage of net assets attributable to common shares)(4)	
Management fees	2.76%(5)
Incentive fees payable under the Investment Management Agreement	0.70%(6)
Interest and other credit facility related expenses on borrowed funds	1.73%(7)
Other expenses	2.03%(8)
Total annual expenses	7.22%(9)

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) The expenses of our dividend reinvestment plan are included in other expenses because they are not material expenses.

(4) Net assets attributable to common shares equals our net assets at December 31, 2007.

(5) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross total assets. See Certain Relationships and Transactions Investment Management Agreement.

(6) Incentive fees are based on actual amounts incurred during the three months ended December 31, 2007 and annualized for a full year. However, the incentive fees which are based on our performance, will vary from year to year and will not be paid unless our performance exceeds certain thresholds. As we cannot predict whether we will meet these thresholds, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended December 31, 2007. For more detailed information about the incentive fee, please see the section of this prospectus captioned Certain Relationships and Transactions Investment Management Agreement and Note 3 to our financial statements included elsewhere in this prospectus.

(7) Interest and other credit facility related expenses on borrowed funds represents interest and credit facility fees incurred and amortization of debt issuance costs during the three months ended December 31, 2007 annualized for a full year. As of December 31, 2007, we had $208.5 million unused and $91.5 million in borrowings outstanding under our $300.0 million credit facility. For more information, see Risk Factors We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.

(8) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the three months ended December 31, 2007 annualized for a full year. See our Consolidated Statement of Operations in our financial statements.

(9) Total annual expenses as a percentage of net assets attributable to common shares are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the total annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness), rather than the total assets, including assets that have been funded with borrowed monies. If the total annual expenses percentage were calculated instead as a percentage of total assets, our total annual expenses would be 5.24% of total assets. For a presentation and calculation of total annual expenses based on total assets, see page 33 of this prospectus.

Example

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a $1,000 hypothetical investment in common shares, assuming (1) a 4.25% sales load (underwriting discounts and commissions) and offering expenses totaling 0.20%, (2) total net annual expenses of 6.52% of net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	$ 106	$ 227	$ 344	$ 622

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses may be greater or less than those assumed. The table above is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Assuming a 5% annual return, the incentive fee under our Investment Management Agreement would not be earned or payable and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. The example assumes that all dividends and distributions are reinvested at net asset value. Under certain circumstances, reinvestment of dividends and distributions under our dividend reinvestment plan may occur at a price per share that differs from net asset value. See Distributions for additional information regarding our dividend reinvestment plan.

SELECTED FINANCIAL DATA

Quarterly financial information is derived from unaudited financial data and, in the opinion of management, reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the three months ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008. The Statement of Operations, Per Share Data and Balance Sheet Data for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our financial statements which have been audited by KPMG LLP, our independent registered public accounting firm. This selected financial data should be read in conjunction with our financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations and Regulation Senior Securities included elsewhere in this prospectus.

(Dollar amounts in thousands, except per share data)	Three months ended December 31, 2007 (Unaudited)	Period from January 11, 2007 (inception) to September 30, 2007*
Statement of operations data:		
Total investment income	$ 9,004	$ 13,107
Net expenses before base management fee waiver	4,477	6,444
Net expenses after base management fee waiver(1)	4,272	5,802
Net investment income	4,732	7,305
Net realized and unrealized loss	(16,269)	(24,004)
Net decrease in net assets resulting from operations	(11,537)	(16,699)
Per share data:		
Net asset value (at period end)	$ 12.07	$ 12.83
Net investment income	0.23	0.35
Net realized and unrealized loss	(0.77)	(1.15)
Net decrease in net assets resulting from operations	(0.54)	(0.80)
Distributions declared	0.22	0.36
Balance sheet data (at period end):		
Total assets	$ 429,679	$ 555,008
Total investment portfolio(3)	423,971	548,976
Borrowings outstanding	91,500	10,000
Payable for investments and cash equivalents purchased	79,407	269,344
Other liabilities	4,551	5,271
Total net asset value	254,221	270,393
Other data:		
Total return(2)	(23.58)%	(8.29)%
Number of portfolio companies (at period end)	38	38(4)
Value of long-term investments (at period end)	$ 342,191	$ 291,017
Yield on debt portfolio (at period end)	10.4%	10.1%(4)

* Inception of operations.

(1) The base management fee waiver is in effect through March 31, 2008. See Certain Relationships and Transactions-Investment Advisory Fees.

(2) Total return is based on the change in market price per share and takes into account dividends and distributions, if any, reinvested in accordance with our dividend reinvestment plan. Total return would have been (23.66)%(4) and (8.49)%(4), respectively, for the three months ended December 31, 2007 and the period from January 11, 2007 (inception) to September 30, 2007 without the base management fee waiver. Total return is not annualized.

(3) Includes cash equivalent.

(4) Unaudited.