

PENNANTPARK INVESTMENT CORP

Form POS 8C

November 24, 2014

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As filed with the Securities and Exchange Commission on November 24, 2014.

Securities Act Registration No. 333-192782

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

Post-Effective Amendment No. 3

Pre-Effective Amendment

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

David Harris

William Tuttle

Dechert LLP

1900 K Street, N.W.

Washington, DC 20006-1110

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

As may be 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.

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

when declared effective pursuant to section 8(c).

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| Title of Securities Being Registered | Amount Being Registered | Proposed Maximum | Proposed Maximum | Amount of Registration Fee ⁽¹⁾ |
|---|-------------------------|-------------------------|---|---|
| | | Offering Price Per Unit | Aggregate Offering Price ⁽¹⁾ | |
| Common Stock, \$0.001 par value ⁽²⁾ | \$ | \$ | \$ | \$ |
| Preferred Stock, \$0.001 par value ⁽²⁾ | | | | |
| Warrants ⁽²⁾ | | | | |
| Subscription Rights ⁽³⁾ | | | | |
| Debt Securities ⁽⁴⁾ | | | | |
| Units ⁽⁵⁾ | | | | |
| Total | \$ | \$ | \$ 1,000,000,000 ⁽⁶⁾ | \$ 128,800 ⁽⁷⁾ |

- (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, preferred stock, or warrants as may be sold, from time to time. Warrants represent rights to purchase common stock, preferred stock or debt securities.
- (3) 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.
- (4) 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 \$1,000,000,000.
- (5) Subject to Note 6 below, there is being registered hereunder an indeterminate principal amount of units. Each unit may consist of a combination of any one or more of the securities being registered hereunder and may also include securities issued by the U.S. Treasury.
- (6) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$1,000,000,000.

(7) Previously paid.

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 this Registration Statement shall thereafter become effective in accordance with Section 8(c) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(c), may determine.

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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

\$1,000,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

Units

PennantPark Investment Corporation is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended.

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and equity investments. 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 \$1,000,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, debt securities, or units, which we refer to, collectively, as the securities. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. 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 exclusive of any underwriting commissions or discounts will not be less than the net asset 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 and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission, or the SEC, may permit. See Risk Factors on page 8 and Sales of Common Stock Below Net Asset Value on page 48 of this prospectus for more information.

Our common stock has been approved for quotation on the NASDAQ Global Select Market under the symbol PNNT. The last reported closing price for our common stock on November 20, 2014 was \$10.85 per share, and our net asset value on September 30, 2014 was \$11.03 per share. Our 6.25% senior notes due 2025, or the 2025 Notes, have been approved for quotation on the New York Stock Exchange, or NYSE, under the symbol PNTA. The last reported closing price of the 2025 Notes on November 20, 2014 was \$24.85 per \$25 of par.

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This prospectus and any accompanying prospectus supplement contain important information you should know before investing in our securities. Please read them before you invest in our securities and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may also obtain such information free of charge or make stockholder inquiries by contacting us in writing at 590 Madison Avenue, New York, NY 10022, by calling us collect at (212) 905-1000 or by visiting our website at www.pennantpark.com. The information on our website is not incorporated by reference into this prospectus. 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 of our securities, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 8 of this prospectus.

Neither the SEC 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 , 2014

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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 \$1,000,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, debt securities, or units on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. 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. The information contained in this prospectus is accurate only as of the date on the front of this prospectus and our business, financial condition, results of operations and prospectus may have changed since that date. 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, before you make an investment decision.

Table of Contents**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. Some of the statements in this prospectus constitute forward-looking statements, which apply to both us and our consolidated small business investment company, or SBIC, subsidiaries and relate to future events, future performance or financial condition. The forward-looking statements involve risks and uncertainties on a consolidated basis and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in this prospectus. 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 any accompanying prospectus supplement, if any, except where the context suggests otherwise: the terms we, us, our and Company refer to PennantPark Investment Corporation and its consolidated subsidiaries; PennantPark Investment refers to only PennantPark Investment Corporation; our SBIC Funds refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC LP, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; and PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC; SBA refers to the Small Business Administration; Credit Facility refers to our multi-currency, senior secured revolving credit facility; 2025 Notes refers to our 6.25% senior notes due 2025; 2019 Notes refers to our 4.50% notes due 2019; 1940 Act refers to the Investment Company Act of 1940, as amended; Code refers to the Internal Revenue Code of 1986, as amended; RIC refers to a regulated investment company under the Code; and BDC refers to a business development company under the 1940 Act.

General Business of PennantPark Investment Corporation

PennantPark Investment Corporation is a BDC whose objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and equity investments.

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 million 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. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. 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. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographic regions.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our Credit Facility, SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Investment Corporation

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PennantPark Investment Corporation, a Maryland corporation organized in January 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we have elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our wholly owned subsidiaries, SBIC LP and SBIC II, were organized as Delaware limited partnerships in May 2010 and July 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as SBICs, under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act, in 2010 and 2013, respectively. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA-eligible businesses that meet the investment criteria used by PennantPark Investment.

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Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing what we believe is an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 25 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser's inception in 2007, it has raised approximately \$2.3 billion in debt and equity capital and has invested \$4.1 billion in 344 companies with 140 different financial sponsors through its managed funds.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC and the SBA. The Administrator assists in the determination and publication of our net asset value, or NAV, oversees the preparation and filing of our tax returns, and monitors the payment of our expenses as well as 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 offer such assistance. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) There are significant potential conflicts of interest which could impact our investment returns for more information.

Market Opportunity

We believe that the limited amount of capital available to middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us. From our perspective, middle market companies have faced difficulty in raising debt through the capital markets and private markets. As a result of the difficulties in the credit markets and fewer sources of capital for middle market companies, we see opportunities for improved risk-adjusted returns. Furthermore, we believe with a large pool of uninvested private equity capital seeking debt capital to complete transactions and a substantial supply of refinancing opportunities, there is an opportunity to attain appealing risk-adjusted returns with debt investments. See [Business](#) for more information.

Competitive Advantages

We believe that we have competitive advantages over other capital providers in middle-market companies, such as a management team with an average of over 25 years of experience in mezzanine lending, leveraged finance, distressed debt and private equity businesses, a disciplined investment approach with strong value orientation, an ability to source and evaluate transactions through our Investment Adviser's research capability and established network and flexible transaction structuring that allows for us to invest across the capital structure coupled with a longer investment horizon with an attractive publicly traded model. See [Business](#) for more information.

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, collateralized loan obligation, or CLO, funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities in middle-market companies can be intense. However, we believe that from time to time there has been a reduction in the amount of debt capital available to middle-market companies. 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 BDC. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) We operate in a highly competitive market for investment opportunities for more information.

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Leverage

We currently use and expect to continue to use leverage to make investments. As a result, we may continue to be exposed to the risks associated with leverage. See [Risk Factors – Risks Relating to our Business and Structure](#) for more information. We believe that our capital resources provide us with the flexibility to take advantage of market opportunities when they arise. Our use of leverage, as calculated under the asset coverage requirements of the 1940 Act, may generally range between 60% and 80% of our net assets. We cannot assure investors that our leverage will remain within that range. The amount of leverage that we employ will depend on our assessment of the market and other factors at the time of any proposed borrowing. See [Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources](#) for more information.

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 us. Under our investment management agreement, or the Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. See [Certain Relationships and Transactions – Investment Management Agreement](#) for more information.

We have also entered into an administration agreement, or the Administration Agreement, with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. Our board of directors, a majority of whom are independent of us, provides overall supervision of our activities and the Investment Adviser supervises our day-to-day activities. See [Certain Relationships and Transactions – Administration Agreements](#) for more information.

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](#) for more information. We have elected, and intend to qualify annually, to be treated for federal income tax purposes under the Code as a RIC. See [Material U.S. Federal Income Tax Considerations](#) for more information.

Our wholly-owned SBIC Funds received licenses from the SBA to operate as SBICs under Section 301(c) of the 1958 Act and are regulated by the SBA. The SBA regulates, among other matters, investing activities and periodically examines our SBIC Funds’ operations. We serve as the investment adviser and administrator to our SBIC Funds. See [Regulation](#) for more information.

Use of Proceeds

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding debt obligations to invest in new or existing portfolio companies, to capitalize a subsidiary or for other general corporate or strategic purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See [Use of Proceeds](#) for information regarding our outstanding borrowings as of September 30, 2014, the corresponding interest rate charged on such borrowings as of that date and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.

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Ratio of Earnings to Fixed Charges

For the years ended September 30, 2014, 2013, 2012, 2011 and 2010, our ratios of earnings to fixed charges were 5.5, 6.0, 5.4, 1.9 and 4.5, respectively. See [Ratio of Earnings to Fixed Charges](#) for more information.

Distributions on Common Stock

We intend to continue making quarterly distributions to our common stockholders. Our quarterly distributions, if any, are determined by our board of directors. See [Distributions](#) for more information.

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 can range from weekly to quarterly and is subject to extension. The dividend rate could be variable and determined for each dividend period. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) for more information.

Dividend Reinvestment Plan

We have adopted an [opt-out](#) dividend reinvestment plan that provides for reinvestment of our 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 distribution, then our stockholders who have not [opted out](#) of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock rather than receiving the cash distribution. Registered stockholders must notify our transfer agent in writing if they wish to [opt-out](#) of the dividend reinvestment plan. See [Dividend Reinvestment Plan](#) for more information.

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Plan of Distribution

We may offer, from time to time, up to \$1 billion 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. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. 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 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. See **Plan of Distribution** for more information.

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 the NASDAQ Global Select Market under the symbol **PNNT**. Our 2025 Notes are quoted on the NYSE under the symbol **PNTA**. Our phone number is (212) 905-1000, and 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. We file periodic reports, proxy statements and other information with the SEC and make such reports available on our website free of charge as soon as reasonably practicable. You may read and copy the materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at www.sec.gov that contains material that we file with the SEC on the EDGAR Database.

Table of Contents**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 from actual results. 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, stockholders will indirectly bear such fees or expenses as investors in us.

| Stockholder transaction expenses (as a percentage of offering price) | |
|--|----------------------------|
| Sales load | % |
| Offering expenses | % |
| Total stockholder expenses | % |
| Estimated annual expenses (as a percentage of average net assets attributable to common shares)⁽³⁾ | |
| Management fees | 3.47% ⁽⁴⁾ |
| Incentive fees | 2.70% ⁽⁵⁾ |
| Interest on borrowed funds | 3.41% ⁽⁶⁾ |
| Other expenses | 0.30% ⁽⁷⁾ |
| Total estimated annual expenses | 9.88%⁽⁸⁾ |

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

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- (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) Net assets attributable to common shares equals average net assets for the three months ended September 30, 2014.
- (4) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets on September 30, 2014. See [Certain Relationships and Transactions Investment Management Agreement](#) for more information.
- (5) The portion of incentive fees paid with respect to net investment income and capital gains, if any, is based on actual amounts incurred during the three months ended September 30, 2014, annualized for a full year. Such incentive fees are based on performance, vary from period to period and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For purposes of this chart and our Consolidated Financial Statements, our incentive fees on capital gains are calculated in accordance with U.S. generally accepted accounting principles, or GAAP. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended September 30, 2014. For more detailed information about the incentive fee, please see [Certain Relationships and Transactions Investment Management Agreement](#) for more information.
- (6) As of September 30, 2014, we had \$489.8 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio, under the 1940 Act, and \$55.2 million in borrowings outstanding under our \$545.0 million Credit Facility, had \$71.3 million in aggregate principal of 2025 Notes at an annual interest rate of 6.25% and had \$250.0 million in aggregate principal of 2019 Notes at an annual interest rate of 4.50%. As of September 30, 2014, our SBIC Funds had debenture commitments from the SBA in the amount of \$225.0 million, had \$150.0 million outstanding with a weighted average interest rate of 3.70%, exclusive of the 3.43% of upfront fees, and had \$75.0 million remaining unused borrowing capacity subject to customary regulatory requirements. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our Credit Facility. After completing any such offering, we may continue to borrow under our Credit Facility to finance our investment objectives. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See [Risk Factors Risks Relating to our Business and Structure](#) We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.
- (7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan 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 September 30, 2014, annualized for a full year.
- (8) Total estimated annual expenses as a percentage of average net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total estimated annual expenses percentage would be for a company that is not leveraged. We may borrow money to leverage our net assets and increase our total assets. The SEC requires that the total estimated annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness) rather than total assets, which include assets that have been funded with borrowed money. For a presentation and calculation of total annual expenses based on average total assets, see page 36 of this prospectus.

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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 3.00% sales load (underwriting discounts and commissions) and offering expenses totaling 0.51%, (2) total net annual expenses of 7.18% of average 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.

| You would pay the following expenses on a \$1,000 common stock investment | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---------------|----------------|----------------|-----------------|
| Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation) | \$ 104 | \$ 236 | \$ 363 | \$ 657 |
| Assuming a 5% annual return (assumes return from only realized capital gains and thus subject to the capital gains incentive fee) | \$ 113 | \$ 261 | | |