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The Year in BDCs

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Overview

- 2009/2010 has been a year of recovery:
 - BDCs are emerging from many of the issues that plagued the industry in 2009, including debt defaults, reduction of termination of dividend payments and limited market opportunities.
- IPO markets have opened up again for BDCs, comparable to 2004.
- The top 25 actively traded BDCs have approximately \$23.6 billion in assets under management.
- Of the top 25 actively traded BDCs, six are currently trading above NAV, eight are trading between 90% - 99% of NAV and 11 are trading a prices further below NAV.
- BDCs have shelf registration statements on file registering approximately \$7 billion of securities (including common stock, preferred stock, subscription rights, warrants and debt).

IPO Activity 2010

- The following BDCs completed their IPO*:
 - Full Circle Capital Corp., \$18 million
 - Golub Capital BDC, Inc., \$102.95 million
 - Solar Capital Ltd., \$92.5 million
 - THL Credit, Inc., \$199 million
- The following BDCs have registration statements pending**:
 - Age Reversal, Inc., \$20 million
 - Business Development Corporation of America, \$1.5 billion
 - Corporate Capital Trust, Inc., \$1.5 billion
 - Gladstone Lending Corp., \$500 million
 - Horizon Technology Finance Corporation, \$125 million
 - Medley Capital BDC LLC, \$200 million
 - New Mountain Guardian Corp., \$200 million
 - OFS Capital Corp., \$150 million
 - White Oak Capital Corp., \$200 million

*Gross proceeds

** Target size

- Of the BDCs that have filed:
 - Four are blind pools.
 - The remainder have legacy portfolios or acquired portfolios investments from successor/affiliated funds.
- All are externally managed with:
 - Base management fees ranging from 1.375% to 2.0%.
 - Incentive fees consistent at 20% of net investment income and 20% of realized capital gains, with one exception which will employ a 15%/15% model.
 - Payment of incentive fees in stock.

IPO Profile – Solar Capital Ltd.

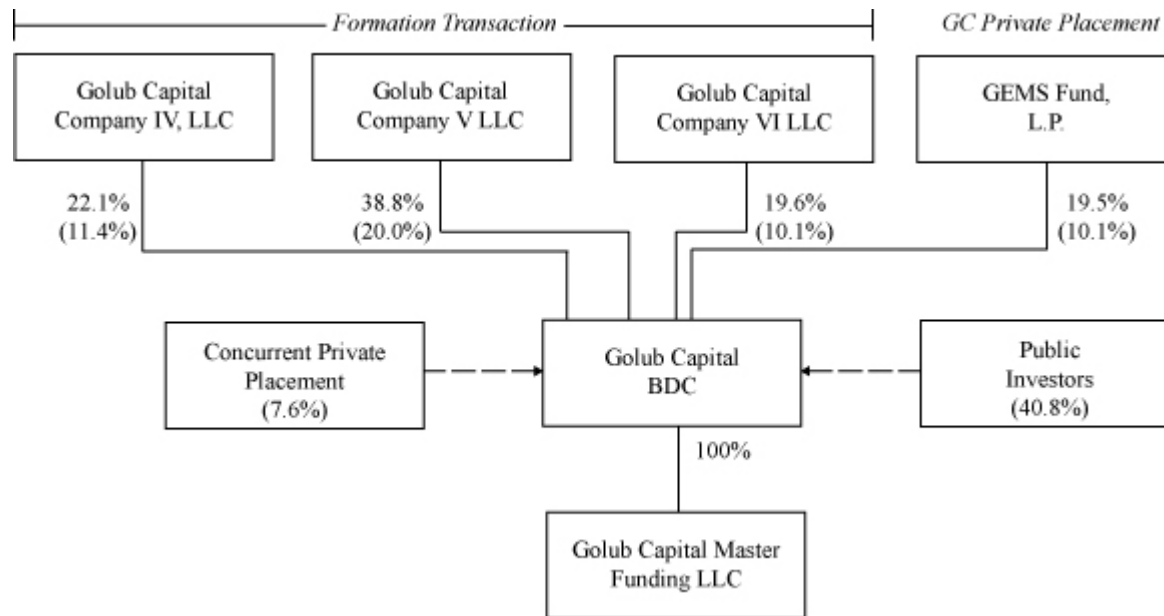
- Raised over \$1.2 billion in initial private placement in March 2007.
- IPO priced on February 9, 2010 and raised approximately \$84 million net proceeds in IPO and \$11 million net proceeds from private placement to Senior Management.
- Sales Load: 7%.
- Lead Underwriters: Citi, J.P. Morgan, Morgan Stanley and SunTrust Robinson Humphrey.
- Trading Platform: NASDAQ Global Select Market – symbol “SLRC”.
- Lock-ups: Senior Management locked-up for 180 days for 50% of shares and 365 days for the remaining shares.
- Formation Transactions: Solar Capital LLC merged with and into Solar Capital Ltd..
 - LLC holders received approximately 26.65 million shares of Ltd. common stock and \$125 million in Ltd. distribution notes and Solar Capital Ltd. acquired LLC’s assets and liabilities, including a \$792.4M portfolio of investments.
- Registration Rights: LLC holders had registration rights from initial private placement.
- Fees: Base Management: 2.0%; Incentive: 20.0% of NII, subject to catch-up & preferred return, plus 20.0% of realized capital gains; and Hurdle rate: 7.0% per annum.

IPO Profile – Golub Capital BDC

- IPO priced on April 15, 2010 and raised approximately \$93.7 million net proceeds in IPO and \$19.2 million net proceeds from private placement to certain existing investors in entities advised by affiliates of Golub Capital.
- Sales Load: 7%.
- Lead Underwriters: Wells Fargo Securities and UBS Investment Bank.
- Trading Platform: NASDAQ Global Select Market – symbol “GBDC”.
- Lock-ups: 180 days for the Company, Adviser, Administrator, Officers and Directors, and investors in the private placement.
- Formation Transactions: Golub Capital BDC LLC converted into a Delaware corporation, Golub Capital BDC, Inc., and all of the outstanding limited liability company interests in Golub Capital BDC LLC were converted into common stock in Golub Capital BDC, Inc.
 - Golub Capital Master Funding LLC, the predecessor entity to and wholly-owned subsidiary of Golub Capital BDC LLC, became a wholly-owned subsidiary of the public company and holds approximately \$326 million of investments in portfolio companies.
- Exemptive Relief Sought: Co-investment with other funds managed by the Adviser.
- Fees: Base Management: 1.375%; Incentive: 20.0% of NII, subject to catch-up & preferred return, plus 20.0% of realized capital gains; Hurdle rate: 8.0% per annum.

IPO Profile – Golub Capital BDC (cont.)

The following chart illustrates Golub Capital BDC's ownership and the level prior to giving effect to the IPO and the concurrent private placement (and after giving effect to the IPO and the concurrent private placement):

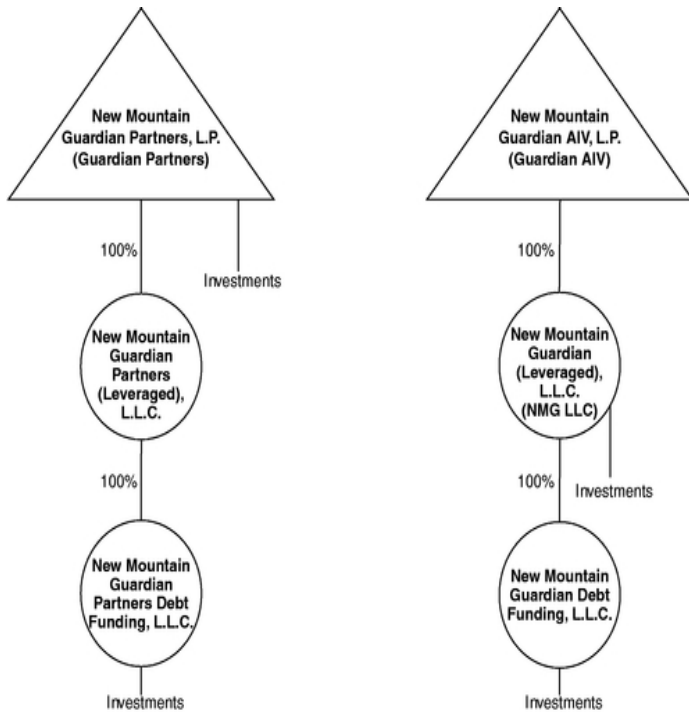


IPO Profile – New Mountain Guardian

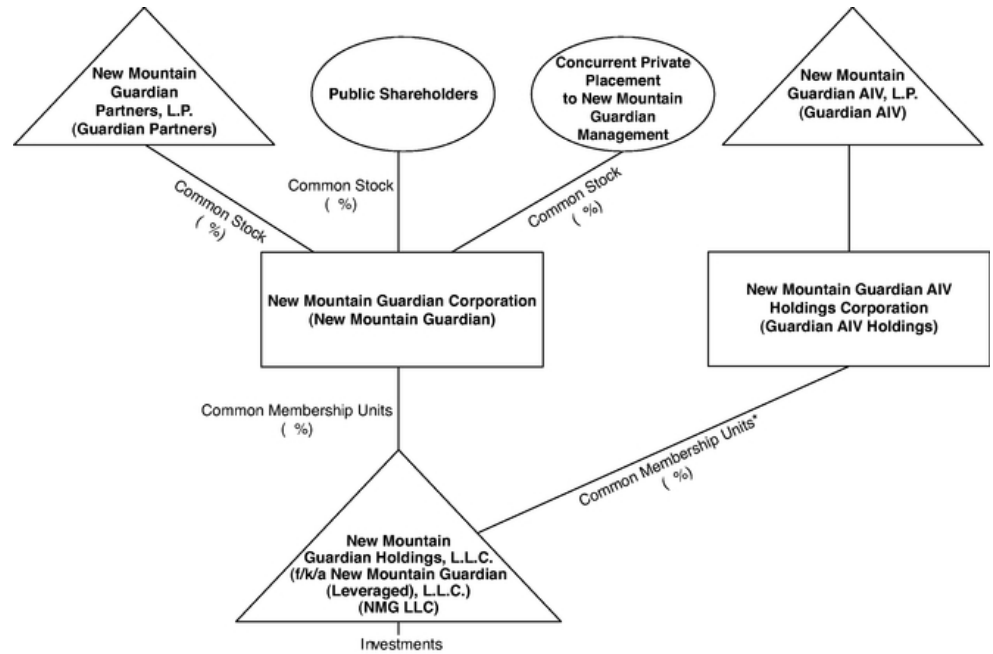
- Filed initial registration statement on Form N-2 on July 22, 2010.
- Lead Underwriters: Goldman, Sachs & Co. and Wells Fargo Securities
- Trading Platform: New York Stock Exchange – symbol “NMTG”.
- Lock-ups: 180 days for the Company, Adviser, Administrator, Officers and Directors, and certain affiliated entities that will receive stock in the formation transactions.
- Formation Transactions: First “UP-BDC” structure based on “UP-REIT” model to avoid triggering built-in tax gains.
 - Public company will be a holding company with no operations and will own membership interests in the operating LLC, which will acquire approximately \$320 million of investments in portfolio companies through a series of merger and exchange transactions from 2 funds owned by affiliates of New Mountain Capital.
- Exemptive Relief Sought: Pay incentive fees in stock; consolidated reporting of entities in “hub-spoke” structure.
- Fees: Base Management: 2.0%; Incentive: 20.0% of NII, subject to catch-up & preferred return, plus 20.0% of realized capital gains; Hurdle rate: 8.0% per annum.

IPO Profile – New Mountain Guardian

Organizational Structure Prior to the Formation Transactions



Organizational Structure After the Formation Transactions



* These common membership units are exchangeable into shares of New Mountain Guardian common stock on a one-for-one basis.

- Three of the IPOs are non-traded BDCs. Typical terms include:
 - Continuous offering
 - Omnibus requirements
 - Commence share repurchases 12 months after meeting minimum offering requirement.
 - Suitability requirements
 - Potential liquidity event between five and seven years of offering
 - Distribution network
 - Selling commissions of 7% of gross proceeds of shares sold
 - Dealer-manager fees of 3% of gross proceeds of offering
 - FINRA review
 - State blue sky review

Shelf Registration Statements

- In 2010 seven BDCs completed secondary offerings (in gross proceeds), for an aggregate of \$1.1 billion:
 - Apollo Investment Corporation - \$213.9 million
 - Ares Capital Corporation - \$292.7 million
 - BlackRock Kelso Capital Corporation - \$88.4 million
 - Fifth Street Finance Corp. - \$187.6 million*
 - Main Street Capital Corporation - \$90.7 million*
 - PennantPark Investment Corporation - \$98.1 million* **
 - Solar Capital Ltd - \$114.6 million (selling stockholders)
- Two BDCs, Prospect Capital Corporation and Gladstone Capital Corporation, entered into equity distribution programs
 - Equity distribution agreement with investment bank acting as sales manager;
 - Commission of up to 2% of gross sales price of all shares sold

* Includes 2 offerings

** Offering below NAV

Proxy Solicitations

- Proxy Contests

- Western Investment LLC launched a proxy contest against MCG Capital proposing two director nominees to challenge the re-election of two MCG nominated director nominees.
- MCG Capital prevailed.

- NAV Proposals

- Common proposal put before shareholders of most BDCs.
- SEC required disclosure in proxy statement is settled.
- Common to use a special meeting to obtain required vote.

- Convertible Debt Proposals

- Common proposal put before shareholders of most BDCs.

- **Prospect Capital Corporation/ Patriot Capital Funding, Inc.**
 - Completed on December 2, 2009. The merger was effected pursuant to the Agreement and Plan of Merger dated August 3, 2009. Each outstanding share of common stock of Patriot was converted into the right to receive 0.363992367 shares of Prospect common stock.
- **Ares Capital Corporation/ Allied Capital Corporation**
 - Completed on April 1, 2010. The merger was effected pursuant to an Agreement and Plan of Merger, dated as of October 26, 2009. Each outstanding share of common stock of Allied Capital was converted into the right to receive 0.325 shares of Ares Capital common stock.
- **Saratoga Investment Corp./ GSC Investment Corp.**
 - Completed on July 30, 2010. Private sale of \$15 million in aggregate price of shares of common stock pursuant to a stock purchase agreement, dated April 14, 2010. In connection with the consummation of the transaction, the Company entered into a new \$40 senior secured revolving credit facility, engaged Saratoga Investment Advisors as its investment adviser and changed its name to Saratoga Investment Corp.

Operations

- **Dividends**
 - Many BDCs that halted or reduced dividend payments resumed payments in 2010 and/or increased payments.
 - Several BDCs issue monthly dividends.
 - IRS payments.
- **Repurchase Programs**
 - Many BDCs have implemented stock repurchase programs permitting the BDC to repurchase up to a certain percentage of its common stock outstanding provided the BDC complies with Section 23(c) and the stockholder notice requirement.
- **Asset Coverage Ratios**
 - Compliance with asset coverage ratio is less of an issue this year given current market conditions.

Portfolio Trends

- **SBIC Subsidiaries**

- Eight BDCs have SBIC subsidiaries, two licensed for externally managed BDCs within the last year.
- Provides access to low-cost debt (a fully funded SBIC with \$75 million in regulatory capital can access up to \$150 million in leverage from the SBA with an option for a second license for an additional \$75 million).

- **Fund Formation**

- Some BDCs are using BDCs as asset managers. The benefit of this structure is the fee income received.

- **Fund Platforms**

- Some BDCs are building a platform of funds that complement the BDC's business.

- SEC Division of Investment Management
 - Departure of Buddy Donahue.
 - Meeting with SEC Enforcement Task Force.
- Legislative Initiatives
 - Decreasing asset coverage ratio.
 - Issuance of preferred stock.
 - Securities offering reform for BDCs.
 - Use of amortized cost for valuation.
- Conclusion
 - BDCs are becoming increasingly familiar to the SEC and Congress; however there is still work to be done.

What is Next?

- Where is the market going?
 - Investment bankers?
- What is the next trend?
- Will there be more BDCs?
- How will the economic recovery affect BDCs?