SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 27917; 812-13290

Medallion Financial Corp.; Notice of Application

July 30, 2007

Agency: Securities and Exchange Commission (the "Commission").

Action: Notice of an application for an order under section 61(a)(3)(B) of the Investment Company Act of 1940 (the "Act").

Summary of Application: Applicant, Medallion Financial Corp., requests an order approving a proposal to grant certain stock options to directors who are not also employees or officers of the applicant (the "Eligible Directors") under its 2006 Non-Employee Director Stock Option Plan (the "2006 Director Plan").

Filing Dates: The application was filed on May 10, 2006 and amended on July 30, 2007.

Hearing or Notification of Hearing: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on August 24, 2007, and should be accompanied by proof of service on applicant, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission's Secretary.

Addresses: Secretary, U.S. Securities and Commission, 100 F Street, NE, Washington, DC 20549-1090; Applicant, 437 Madison Avenue, 38th Floor, New York, New York, 10022.

For Further Information Contact: Shannon Conaty, Senior Counsel, at (202) 551-6827, or Nadya B. Roytblat, Assistant Director, at (202) 551-6821 (Division of Investment Management, Office of Investment Company Regulation).

Supplementary Information: The following is a summary of the application. The complete application is available for a fee at the Public Reference Desk, U.S. Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-0102 (telephone 202-551-5850).

Applicant's Representations:

1. Applicant, a Delaware corporation, is a business development company ("BDC") within the meaning of section 2(a)(48) of the Act.[1] Applicant is a specialty finance company that has a leading position in originating, acquiring and servicing loans that finance taxicab medallions and various types of commercial businesses. Applicant operates its businesses through five wholly-owned subsidiaries, Medallion Funding Corp., Medallion Capital, Inc., Medallion Business Credit, LLC, Freshstart Venture Capital Corp. and Medallion Bank. Applicant is managed by its executive officers under the supervision of its board of directors ("Board"). Applicant's investment decisions are made by its executive officers under authority delegated by the Board. Applicant does

[1] Section 2(a)(48) defines a BDC to be any closed-end investment company that operates for the purpose of making investments in securities described in sections 55(a)(1) through 55(a)(3) of the Act and makes available significant managerial assistance with respect to the issuers of such securities.

not have an external investment adviser within the meaning of section 2(a)(20) of the Act.

2. Applicant requests an order under section 61(a)(3)(B) of the Act approving its proposal to grant certain stock options under the 2006 Director Plan to its Eligible Directors.[2] Applicant has a nine member Board. Six of the seven current Eligible Directors on the Board are not "interested persons" (as defined in section 2(a)(19) of the Act) of the applicant. The Board approved the 2006 Director Plan at a meeting held on February 15, 2006 and Applicant's stockholders approved the 2006 Director Plan at the annual meeting of stockholders held on June 16, 2006.[3] The 2006 Director Plan will become effective on the date on which the Commission issues an order on the application (the "Approval Date").[4]

3. Applicant's Eligible Directors are eligible to receive options under the 2006 Director Plan. Under the 2006 Director Plan, a maximum of 100,000 shares of applicant's common stock, in the aggregate, may be issued to Eligible Directors. There is no limit on the number of applicant's common stock which may be issued to any one Eligible Director. Each of the Eligible Directors elected at the annual meeting of the

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[2] The Eligible Directors receive a $35,000 per year retainer payment, $3,500 for each Board meeting attended, $1000 for each telephonic Board meeting, from $1,500 to $3,000 for each committee meeting attended, and reimbursement for related expenses.

[3] On May 31, 2007, the Company's Board of Directors amended the 2006 Director Plan by unanimous board consent. The Company and its legal counsel have determined that such changes did not necessitate a shareholder vote under Section 10 of the 2006 Director Plan or pursuant to the provisions to the Act and the rules promulgated thereunder.

[4] Applicant previously obtained similar relief for its 1996 Amended and Restated Non-Employee Director Stock Option Plan (the "1996 Director Plan", and together with the 2006 Director Plan, the "Director Plans"). *See* Medallion Financial Corp., Investment Company Act Rel. Nos. 22350 (Nov. 25, 1996) (notice) and 22417 (Dec. 23, 1996) (order), *as amended by* Medallion Financial Corp., Investment Company Act Rel. Nos. 24342 (Mar. 17, 2000) (notice) and 24390 (Apr. 12, 2000) (order). The 1996

Board on June 16, 2006 and on June 1, 2007 will be granted options to purchase 9,000 shares of applicant's common stock on the Approval Date. The 2006 Director Plan also provides that (i) at each annual shareholders' meeting after the Approval Date, each Eligible Director elected or re-elected at that meeting to a three-year term will be granted options to purchase 9,000 shares of applicant's common stock; and (ii) upon the election, reelection or appointment of an Eligible Director to the Board other than at the annual shareholders' meeting, that Eligible Director will be granted an option to purchase that number of shares of common stock determined by multiplying 9,000 by a fraction, the numerator of which is equal to the number of whole months remaining in the new director's term and the denominator of which is 36. The options issued under the 2006 Director Plan will become exercisable at each annual meeting of applicant's shareholders with respect to one-third the number of shares covered by such option.

4. Under the terms of the 2006 Director Plan, the exercise price of an option will not be less than 100% of the current market value of, or if the stock is not quoted on the date of the grant, the current net asset value per share of, applicant's common stock on the date of the issuance of the option as determined in good faith by the members of the Board not eligible to participate in the 2006 Director Plan (the "Director Plan Committee").[5] Options granted under the 2006 Director Plan will expire ten years from the date of grant and may not be assigned or transferred other than by will or the laws of descent and distribution. Any Eligible Director holding exercisable options under the 2006 Director Plan who ceases to be an Eligible Director for any reason, other than

Director Plan expired on May 21, 2006. Applicant intends to implement the 2006 Director Plan to replace the 1996 Director Plan.

permanent disability, death or removal for cause, may exercise the rights the director had under the options on the date the director ceased to be an Eligible Director for a period of up to three months following that date. No additional options held by the director will become exercisable after the three month period. In the event of removal of an Eligible Director for cause, all outstanding options held by such director shall terminate as of the date of the director's removal. Upon the permanent disability or death of an Eligible Director, those entitled to do so under the director's will or the laws of descent and distribution will have the right, at any time within twelve months after the date of permanent disability or death, to exercise in whole or in part any rights which were available to the director at the time of the director's permanent disability or death.

5. Applicant's officers and employees, including employee directors, are eligible or have been eligible to receive options under applicant's 1996 Employee Stock Option Plan (the "1996 Employee Plan"), which expired on May 21, 2006, and the 2006 Employee Stock Option Plan (the "2006 Employee Plan", and, together with the 1996 Employee Plan, the "Employee Plans"). Eligible Directors are not eligible to receive stock options under the Employee Plans. The remaining 2,061,304 shares of applicant's common stock subject to issuance to officers and employees under the Employee Plans represent 11.78% of the 17,502,515 shares of applicant's common stock outstanding as of June 30, 2007. Eligible Directors are eligible or have been eligible to participate in applicant's Director Plans under which 175,749 shares of applicant's common stock remain for issuance, representing 1.00% of shares of applicant's common stock

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[5] Under the 2006 Director Plan, "current market value" (defined as "fair market value") is the closing sales price of applicant's common shares as quoted on the NASDAQ Global Select Market on the date of the grant, as reported in the Wall Street Journal (Northeast Edition).

outstanding as of June 30, 2007. The 100,000 shares of applicant's common stock that may be issued to Eligible Directors under the 2006 Director Plan represent 0.57% of shares of applicant's common stock outstanding as of June 30, 2007. Therefore, the maximum number of applicant's voting securities that would result from the exercise of all outstanding options issued and all options issuable to directors, officers, and employees under the Director Plans and the Employee Plans would be 2,237,053 shares of applicant's common stock, or approximately 12.78% of shares of applicant's common stock outstanding as of June 30, 2007. Applicant has no outstanding warrants, options, or rights to purchase its voting securities, other than the options granted or to be granted to its directors, officers, and employees under the Director Plans and the Employee Plans.

<u>Applicant's Legal Analysis</u>:

1. Section 63(3) of the Act permits a BDC to sell its common stock at a price below current net asset value upon the exercise of any option issued in accordance with section 61(a)(3). Section 61(a)(3)(B) provides, in pertinent part, that a BDC may issue to its non-employee directors options to purchase its voting securities pursuant to an executive compensation plan, provided that: (a) the options expire by their terms within ten years; (b) the exercise price of the options is not less than the current market value of the underlying securities at the date of the issuance of the options, or if no market exists, the current net asset value of the voting securities; (c) the proposal to issue the options is authorized by the BDC's shareholders, and is approved by order of the Commission upon application; (d) the options are not transferable except for disposition by gift, will or intestacy; (e) no investment adviser of the BDC receives any compensation described in section 205(a)(1) of the Investment Advisers Act of 1940, except to the extent permitted

by clause (b)(1) or (b)(2) of that section; and (f) the BDC does not have a profit-sharing plan as described in section 57(n) of the Act.

2. In addition, section 61(a)(3) provides that the amount of the BDC's voting securities that would result from the exercise of all outstanding warrants, options, and rights at the time of issuance may not exceed 25% of the BDC's outstanding voting securities, except that if the amount of voting securities that would result from the exercise of all outstanding warrants, options, and rights issued to the BDC's directors, officers, and employees pursuant to an executive compensation plan would exceed 15% of the BDC's outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options, and rights at the time of issuance will not exceed 20% of the outstanding voting securities of the BDC.

3. Applicant represents that its proposal to grant certain stock options to Eligible Directors under the 2006 Director Plan meets all the requirements of section 61(a)(3)(B). Applicant states that the Board is actively involved in the oversight of applicant's affairs and that it relies extensively on the judgment and experience of its Board. In addition to their duties as Board members generally, applicant states that the Eligible Directors provide guidance and advice on financial and operational issues, credit and loan policies, asset valuation and strategic direction, as well as serving on committees. Applicant believes that the availability of options under the 2006 Director Plan will provide significant at-risk incentives to Eligible Directors to remain on the Board and devote their best efforts to ensure applicant's success. Applicant states that the options will provide a means for the Eligible Directors to increase their ownership interests in applicant, thereby ensuring close identification of their interests with those of

applicant and its stockholders. Applicant asserts that by providing incentives such as options, applicant will be better able to maintain continuity in the Board's membership and to attract and retain the highly experienced, successful and motivated business and professional people who are critical to applicant's success as a BDC.

4. Applicant states that the maximum amount of voting securities that would result from the exercise of all outstanding options issued or issuable to the directors, officers, and employees under the Director Plans and Employee Plans would be 2,237,053 shares of applicant's common stock, or approximately 12.78% of applicant's shares of common stock outstanding as of June 30, 2007, which is below the percentage limitations in the Act. Applicant asserts that, given the relatively small amount of common stock issuable to Eligible Directors upon their exercise of options under the 2006 Director Plan, the exercise of such options would not, absent extraordinary circumstances, have a substantial dilutive effect on the net asset value of applicant's common stock.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Florence E. Harmon
Deputy Secretary