

PENNANTPARK INVESTMENT CORP

Form 497

September 24, 2009

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Filed Pursuant to Rule 497

File No. 333-150033

**Prospectus Supplement  
To the Prospectus dated**

September 22, 2009

**4,300,000**

**Common Stock**

**\$8.00 per share**

We are offering for sale 4,300,000 shares of our common stock. We are offering shares of our common stock at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders on August 25, 2009. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See **Risk Factors** on page 9 of the accompanying prospectus and page S-9 in this prospectus supplement and **Sales of Common Stock Below Net Asset Value** on page S-18 of this prospectus supplement.

Our common stock is traded on the NASDAQ Global Select Market under the symbol **PNNT**. The last reported closing price for our common stock on September 23, 2009 was \$8.41 per share. The net asset value of our common stock on June 30, 2009 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$11.72 per share.

PennantPark Investment Corporation, a Maryland corporation, 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**). 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. We are externally managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

This prospectus supplement and the accompanying prospectus contain 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 about us with the Securities and Exchange Commission, or the SEC. 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](http://www.pennantpark.com). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information free of charge. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement.

**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 us in Risk Factors beginning on page 9 of the accompanying prospectus and page S-9 in this prospectus supplement.**

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

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$ 8.00	\$ 34,400,000
Underwriting discount and commission (sales load)	\$ 0.40	\$ 1,720,000

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Proceeds to PennantPark Investment Corporation (before estimated expenses of \$200,000) \$ 7.60 \$ 32,680,000

The underwriters may also purchase up to an additional 645,000 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallocments. If the underwriters exercise this option in full, the total public offering price will be \$39,560,000, the total underwriting discount and commissions (sales load) paid by us will be \$1,978,000, and total proceeds, before expenses, will be \$37,582,000.

The underwriters expect to deliver the shares on or about September 29, 2009.

**SunTrust Robinson Humphrey**

**BMO Capital Markets**

**Robert W. Baird & Co**

**FBR Capital Markets**

**Keefe, Bruyette & Woods**

**Stifel Nicolaus**

**ING Wholesale Natixis Bleichroeder Inc.**

The date of this prospectus supplement is September 24, 2009.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus 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 supplement and the accompanying prospectus. 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 this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement and the accompanying prospectus. Our business, financial condition, results of operations and prospects may have changed since then. We will update these documents to reflect material changes only as required by law.

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**SUPPLEMENTAL PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying 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 supplement and the accompanying prospectus. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the terms we, us, our and PennantPark Investment 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.

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.

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 generally range in maturity from three to ten years. In this prospectus supplement, we use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion.

**About PennantPark Investment Advisers**

Our investment activities are managed by the Investment Adviser under an investment advisory and management agreement dated April 17, 2007, as renewed in February 2009, between PennantPark Investment and the Investment Adviser (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 Investment. 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

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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 48 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 in the accompanying prospectus.

### **About PennantPark Investment Administration**

Under our administration agreement dated April 17, 2007, as renewed in February 2009, between PennantPark Investment and the Administrator, or 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 in the accompanying prospectus.

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 the Administrator, has extensive experience in finance and administration of registered investment companies.

### **Market Opportunity**

We believe that the number of middle-market companies, coupled with the demands of these companies for flexible sources of capital, creates an attractive investment environment for PennantPark Investment.

**We believe middle-market companies have faced increasing difficulty in raising debt through the capital markets.** While many middle-market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult as institutional investors have sought to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield debt securities.

**We believe that the current credit market dislocation improves the risk/reward of our investments.** The downturn in the credit market has resulted in less competition, more conservative capital structures, higher yields and stronger covenants.

**We believe there is a large pool of uninvested private equity capital which is likely to seek to combine their capital with sources of debt capital to complete private investments.** We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with mezzanine loans and/or senior secured loans provided by other sources, and we believe that our capital is well-positioned to partner with such equity investors. We expect such activity to be funded by the substantial amounts of private equity capital that have been raised in recent years.

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**We believe that opportunities to invest mezzanine and other debt capital will remain strong.** We expect that the volume of domestic public-to-private transactions as well as the number of companies selecting a sale alternative versus raising capital in the public equity markets as a means of increasing liquidity will remain large. Additionally, the cost and effort associated with being a public company in the United States have become more onerous, causing many management teams to consider alternative liquidity strategies.

### **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 believe our approach has and will continue to 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 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

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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, 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 there has been a reduction in the amount of debt capital available 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 our Investment Adviser, which 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 in the accompanying prospectus.

### **Leverage**

We maintain a five-year, multi-currency \$300 million senior secured credit facility, or the credit facility, with a group of lenders, under which we had \$202.0 million (including a \$40.0 million temporary draw) and \$187.3 million of indebtedness outstanding at September 30, 2008 and June 30, 2009, respectively. Pricing on borrowings under our credit facility is set at 100 basis points over LIBOR. We expect that our 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 for the quarter ended June 30, 2009 in the accompanying prospectus.

### **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 Investment. 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 in the accompanying prospectus.

As a business development company, 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 in the accompanying prospectus. We have elected to be treated for federal income tax purposes under the Internal Revenue Code of 1986, as amended, or the Code, as a regulated investment company, or RIC. For more information, see Material U.S. Federal Income Tax Considerations in the accompanying prospectus.



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### **Use of Proceeds**

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce our outstanding obligations under our credit facility. We may also use such proceeds to invest in new or existing portfolio companies or for other general corporate purposes. See [Use of Proceeds](#) in this prospectus supplement for information regarding our outstanding borrowings as of June 30, 2009, 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.

### **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](#) in the accompanying prospectus.

### **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](#) in the accompanying prospectus.

### **Recent Developments**

On August 25, 2009, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending August 25, 2010. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock; however, we do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share.

On September 16, 2009 our board of directors approved an issuance of shares of common stock at a price below our current net asset value per share and at a price per share that approximates the market value of our shares traded on the NASDAQ Global Select Market, less an underwriting discount, at the time of sale. Our board of directors unanimously believes that such issuance is in our best interest and in the best interests of our stockholders. For more information see [Sales of Common Stock Below Net Asset Value](#) in this prospectus supplement.

In this prospectus supplement, we describe the risks and dilutive effects of an offering of our common stock at a price below our current net asset value. See [Risk Factors](#) [Risks relating to our Business and Structure](#) in the accompanying prospectus and [Risk Factors](#) and [Sales of Common Stock Below Net Asset Value](#) in this prospectus supplement.

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

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**Our Corporate Information**

Our principal executive and administrative offices are located at 590 Madison Avenue, 15<sup>th</sup> Floor, New York, NY 10022. Our common stock is quoted on NASDAQ Global Select Market 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 supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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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 supplement or the accompanying 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 us.

<b>Stockholder transaction expenses (as a percentage of the offering price)</b>	
Sales load	5.00% <sup>(1)</sup>
Offering expenses	0.58% <sup>(2)</sup>
<b>Total common stockholder expenses</b>	<b>5.58%</b>
<b>Estimated annual expenses (as a percentage of net assets attributable to common shares)<sup>(3)</sup></b>	
Management fees	3.10% <sup>(4)</sup>
Incentive fees payable under the Investment Management Agreement	1.99% <sup>(5)</sup>
Interest payments on borrowed funds	1.82% <sup>(6)</sup>
Other expenses	1.47% <sup>(7)</sup>
<b>Total annual expenses</b>	<b>8.38%<sup>(8)</sup></b>

- (1) The underwriting discounts and commissions with respect to the shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.
- (2) Amount reflects estimated offering expenses of approximately \$200,000 and based on the 4,300,000 shares offered in this offering.
- (3) Based on net assets attributable to common shares at June 30, 2009 plus the anticipated net proceeds from this offering.
- (4) 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* in the accompanying prospectus.
- (5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the nine months ended June 30, 2009, annualized for a full year. Such incentive fees are based on performance, vary from year to year 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. 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 nine months ended June 30, 2009. For more detailed information about the incentive fee, please see *Certain Relationships and Transactions Investment Management Agreement* in the accompanying prospectus.
- (6) As of June 30, 2009, we had \$112.7 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$187.3 million in borrowings outstanding under our \$300.0 million credit facility. 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 intend to continue to borrow under our credit facility to finance portfolio investments and are permitted to do so under the terms of our credit facility. We have estimated the interest payments on borrowed funds to take this into account, however, we caution you that our actual interest expense will depend on prevailing interest rates

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and our rate of borrowing and may be substantially higher than the estimate provided in this table. For more information, see Risk Factors We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage in the accompanying prospectus.

- (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 nine months ended June 30, 2009, annualized for a full year. See our Statement of Operations in our financial statements in the accompanying prospectus.
- (8) Total annual expenses as a percentage of net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total 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 annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness), rather than 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 5.41% of total assets.

**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 5.00% sales load (underwriting discounts and commissions) and offering expenses totaling 0.58%, (2) total net annual expenses of 6.39% 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:

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Total expenses incurred	\$ 116	\$ 233	\$ 347	\$ 619

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 and additional information regarding our dividend reinvestment plan in the accompanying prospectus.

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**RISK FACTORS**

*Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline or the value of our preferred stock, debt securities, warrants or subscription rights may decline, and you may lose all or part of your investment.*

**Because we intend to distribute substantially all of our income to our stockholders to maintain our status as a RIC, we will continue to need additional capital to finance our growth. If we sell shares of our common stock below our net asset value per share in order to raise capital, our common stockholders will experience immediate dilution of their interest in our common stock and our net asset value per share will be reduced. Such dilution could materially lower the value of your investment in our common stock.**

In order to satisfy the requirements applicable to a RIC and to avoid payment of excise taxes, we intend to distribute to our stockholders substantially all of our net ordinary income and net capital gain income except for certain net long-term capital gains, some or all of which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a business development company, we generally are required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments or sell additional common stock and, depending on the nature of our leverage, to repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous. In addition, the issuance of additional securities could dilute the percentage ownership of our current stockholders in us.

While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value could decline. In addition, as a business development company, we generally are not permitted to issue equity securities prices below net asset value without stockholder approval. At a special meeting of stockholders on August 25, 2009, our stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue additional common stock; however, we do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interests to do so.

Any issuance of our common stock at a price below our net asset value per share will have an immediate dilutive effect on your interest in our shares and will lower our net asset value per share. Stockholders also may experience a reduction in the market price of our common stock. Stockholders who do not purchase additional shares at or below the discounted price in proportion to their current ownership will experience a greater dilutive effect in their voting power than those who elect to participate in the offering. Additionally, their share in our earning potential will be reduced in the future. The dilution occurs because, unless you participate in the offering, your percentage interest in our common shares outstanding will decrease after an offering of new shares of common stock. The reduction in net asset value per share occurs because the net proceeds per share from the offering are less than our net asset value per share before the offering. For an illustration on the potential dilutive effect of an offering of our common stock at a price below net asset value, please see "Sales of Common Stock Below Net Asset Value" in this prospectus supplement.

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### **There is a risk that our stockholders may not receive distributions or that our distributions may not grow over time.**

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Further, if more stockholders opt to receive cash dividends and other distributions rather than participate in our dividend reinvestment plan, we may be forced to liquidate some of our investments and raise cash in order to make distribution payments, which could materially harm our business. Finally, to the extent we make distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of our common stock.

### **Investing in our shares may involve an above average degree of risk.**

The investments we make in accordance with our investment objectives may result in a higher amount of risk and volatility than alternative investment options or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

### **There is a risk that our common stockholders may receive our stock as dividends.**

On January 7, 2009, the Internal Revenue Service issued a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared with respect to a taxable year ending on or before December 31, 2009 and (3) each shareholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all shareholders, which must be at least 10% of the aggregate declared distribution. If too many shareholders elect to receive cash, each shareholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any shareholder electing to receive cash receive less than 10% of his or her entire distribution in cash.

If we distribute our common stock as a dividend of our taxable income, a shareholder could receive up to 90% of the amount of the dividend declared in shares of our common stock with the remaining amount in cash. The total dividend declared would be taxable income to a shareholder although he or she may only receive 10% of the dividend in cash to pay any taxes due on the dividend.

### **The market price of our common stock may fluctuate significantly.**

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;

changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

any loss of RIC status;

changes in earnings or variations in operating results;

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changes in the value of our portfolio of investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the inability of our Investment Adviser to employ additional experienced investment professionals or the departure of any of the Investment Adviser's key personnel, including Mr. Penn;

operating performance of companies comparable to us;

general economic trends and other external factors; and

loss of a major funding source.

Since our initial listing on the NASDAQ Global Select Market, our shares of common stock have traded at a wide range of prices. We can offer no assurance that our shares of common stock will not display similar volatility in future periods.

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to future events or our future performance or financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our prospective portfolio companies;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the impact of a protracted decline in the liquidity of credit markets on our business;

the impact of investments that we expect to make;

the impact of fluctuations in interest rates on our business;

our contractual arrangements and relationships with third parties;

the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

the ability of our prospective portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our prospective portfolio companies; and

the ability of the Investment Adviser to locate suitable investments for us and to monitor and administer our investments.

We use words such as anticipates, believes, expects, intends, seeks and similar expressions to identify forward-looking statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in Risk Factors and elsewhere in this prospectus supplement and the accompanying prospectus.



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We have based the forward-looking statements included in this prospectus supplement and accompanying prospectus on information available to us on the date of this prospectus supplement, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this prospectus supplement and accompanying prospectus, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

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**USE OF PROCEEDS**

The net proceeds we will receive from the sale of 4,300,000 shares of our common stock in this offering will be approximately \$32.5 million (or approximately \$37.4 million if the underwriters fully exercise their overallotment option), in each case based on a public offering price of \$8.00 per share, after deducting the underwriting discounts and commissions of \$1.7 million (or approximately \$2.0 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$200,000 payable by us.

We may use the net proceeds from selling securities pursuant to this prospectus to reduce outstanding obligations under our credit facility and any such use may dilute our net asset value per share. We may also use such proceeds to invest in new or existing portfolio companies, or for other general corporate purposes.

As of June 30, 2009, we had \$112.7 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$187.3 million in borrowings outstanding under our \$300 million credit facility. Borrowings under our credit facility bear interest at an annual rate equal to LIBOR + 100 basis points per annum. At June 30, 2009, this corresponded to an interest rate of 1.31%. The credit facility is a five-year revolving facility with a stated maturity date of June 25, 2012 and is secured by substantially all of the assets in our investment portfolio. Amounts repaid under our credit facility will remain available for future borrowings.

We may invest the proceeds from an offering of securities in new or existing portfolio companies, and such investments may take up to two years from the closing of such offering, in part because privately negotiated investments in illiquid securities or private middle-market companies require substantial due diligence and structuring. During this period, we may use the net proceeds from our offering to reduce then-outstanding obligations under our credit facility, which may dilute our net asset value per share, or to invest such proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to earn yields on such investments, if any, that are lower than the interest income that we anticipate receiving in respect of investments in our core assets. As a result, any distributions we make during this investment period may be lower than the distributions that we would expect to pay when such proceeds are fully invested in core assets. The management fee payable by us will not be reduced while our assets are invested in any such securities. See

Regulation Temporary Investments in the accompanying prospectus, for additional information about temporary investments we may make prior to investing in core assets.

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The following table sets forth our cash and capitalization on June 30, 2009 (1) on an actual basis and (2) as adjusted to reflect the effects of the sale of 4,300,000 shares of our common stock in this offering at an offering price of \$8.00 per share (\$7.55 per share net). You should read this table together with Use of Proceeds set forth in this prospectus supplement and in the accompanying prospectus. You should also read this table with our financial statements and notes thereto, in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the accompanying prospectus.

	As of June 30, 2009 (unaudited)	
	Actual	As adjusted for the offering <sup>(1)</sup>
Cash and cash equivalents	\$ 541,136	\$ 33,021,136
Total assets	401,103,013	433,583,013
Borrowings under senior credit facility (cost \$187,300,000)	134,057,558	134,057,558
<b>Stockholders' Equity</b>		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized, 21,068,772 shares issued and outstanding, 25,368,772 shares issued and outstanding, as adjusted, respectively	21,069	25,369
Paid in capital in excess of par	294,586,604	327,062,304
Undistributed (distributions in excess of) net investment income	928,718	928,718
Cumulative effect of adoption of fair value option on credit facility	41,796,000	41,796,000
Accumulated net realized loss on investments and cash equivalents	(42,097,607)	(42,097,607)
Net unrealized depreciation on investments	(59,703,986)	(59,703,986)
Net unrealized depreciation on credit facility	11,446,442	11,446,442
Total stockholders' equity	246,977,240	279,457,240
Total capitalization	381,034,798	413,514,798

(1) Does not include the underwriters' over-allotment option.

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We have derived the quarterly financial information below from our unaudited financial data set forth in the accompanying prospectus, and, in the opinion of management, such information 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 nine months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. The Statements of operations data, Per share data and Balance sheet data for the year ended September 30, 2008 and for the period from January 11, 2007 (Inception) through September 30, 2007 are derived from our financial statements set forth in the accompanying prospectus, 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 in the accompanying prospectus.

	Nine months ended June 30, 2009 (Unaudited)	Year ended September 30, 2008 (Audited)	For the period from January 11, 2007 (Inception) through September 30, 2007 (Audited)
<b>(Dollar amounts in thousands, except per share data)</b>			
<b>Statement of operations data:</b>			
Total investment income	\$ 33,271	\$ 39,811	\$ 13,107
Net expenses before base management fee waiver	16,570	21,676	6,444
Net expenses after base management fee waiver <sup>(1)</sup>	16,570	21,255	5,803
Net investment income	16,701	18,556	7,305
Net realized and unrealized loss	(7,078)	(59,259)	(24,003)
Net increase/(decrease) in net assets resulting from operations	9,622	(40,703)	(16,699)
<b>Per share data:</b>			
Net asset value (at period end)	\$ 11.72	\$ 10.00	\$ 12.83
Net investment income	0.79	0.88	0.35
Net realized and unrealized loss	(0.34)	(2.81)	(1.15)
Net increase/(decrease) in net assets resulting from operations	0.45	(1.93)	(0.80)
Distributions declared	0.72	0.90	0.36
<b>Balance sheet data (at period end):</b>			
Total assets	\$ 401,103	\$ 419,811	\$ 555,008
Total investment portfolio	393,138	372,148	291,017
Borrowings outstanding	134,058 <sup>(4)</sup>	202,000	10,000
Payable for investments and unfunded investments	10,515		273,339
Other liabilities	9,553	7,082	1,281
Total net asset value	246,977	210,728	270,393
<b>Other data:</b>			
Total return <sup>(2)</sup>	10.88%	(38.58)%	(8.29)%
Number of portfolio companies (at period end)	37	37 <sup>(3)</sup>	38 <sup>(3)</sup>
Yield on debt portfolio (at period end)	10.40%	11.10% <sup>(3)</sup>	10.10% <sup>(3)</sup>

(1) The base management fee waiver was in effect from inception through March 31, 2008. See Certain Relationships and Transactions Investment Advisory Fees in the accompanying prospectus.

(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 is not annualized.

(3) Unaudited.

(4) At fair value.

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(dollar amounts in thousands, except per share data)

	<b>Q3</b>	<b>2009 Q2</b>	<b>Q1</b>
Total investment income	\$ 10,770	\$ 10,425	\$ 12,077
Net investment income (loss)	\$ 5,666	\$ 5,267	\$ 5,768
Net realized and unrealized gain (loss)	\$ (6,486)	\$ 36,932	\$ (37,525)
Net increase (decrease) in net assets resulting from operations	\$ (820)	\$ 42,199	\$ (31,757)
Earnings per common share	\$ (0.04)	\$ 2.00	\$ (1.51)
Net asset value per share at the end of the quarter	\$ 11.72	\$ 12.00	\$ 10.24
Market value per share at the end of the quarter	\$ 7.10	\$ 3.75	\$ 3.61

	<b>Q4</b>	<b>2008 Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 11,431	\$ 9,662	\$ 9,714	\$ 9,004
Net investment income (loss)	\$ 5,434	\$ 3,941	\$ 4,449	\$ 4,732
Net realized and unrealized gain (loss)	\$ (16,475)	\$ 11,263	\$ (37,778)	\$ (16,269)
Net increase (decrease) in net assets resulting from operations	\$ (11,041)	\$ 15,204	\$ (33,329)	\$ (11,537)
Earnings per common share	\$ (0.53)	\$ 0.72	\$ (1.58)	\$ (0.54)
Net asset value per share at the end of the quarter	\$ 10.00	\$ 10.77	\$ 10.26	\$ 12.07
Market value per share at the end of the quarter	\$ 7.41	\$ 7.21	\$ 8.51	\$ 10.02

	<b>Q4</b>	<b>2007 Q3</b>	<b>Q2*</b>
Total investment income	\$ 6,909	\$ 5,425	\$ 773
Net investment income (loss)	\$ 4,348	\$ 3,208	\$ (251)
Net realized and unrealized gain (loss)	\$ (18,870)	\$ (5,152)	\$ 18
Net increase (decrease) in net assets resulting from operations	\$ (14,522)	\$ (1,944)	\$ (234)
Earnings per common share	\$ (0.70)	\$ (0.09)	\$ (0.01)
Net asset value per share at the end of the quarter	\$ 12.83	\$ 13.74	\$ 12.08
Market value per share at the end of the quarter	\$ 13.40	\$ 14.04	\$ (1)

\* From January 11, 2007 (inception of operations)

(1) Our public offering was on April 24, 2007.

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Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT . The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market. On September 23, 2009, the last reported closing price of our common stock was \$8.41 per share.

Period	NAV <sup>(1)</sup>	Closing Sales Price		High	Low	Declared Dividends
		High	Low	Sales Price to NAV <sup>(2)</sup>	Sales Price to NAV <sup>(2)</sup>	
<b>Fiscal year ending September 30, 2009</b>						
Fourth quarter (through September 23, 2009)	\$ N/A	\$ 9.06	\$ 6.28	N/A%	N/A%	\$ 0.24 <sup>(3)</sup>
Third quarter	11.72	7.65	3.85	65	33%	0.24
Second quarter	12.00	4.05	2.64	34	22	0.24
First quarter	10.24	7.81	2.35	76	23	0.24
<b>Fiscal year ended September 30, 2008</b>						
Fourth quarter	10.00	8.50	5.92	85	59	0.24
Third quarter	10.77	8.60	7.05	80	65	0.22
Second quarter	10.26	11.31	8.38	110	82	0.22
First quarter	12.07	14.49	9.08	120	75	0.22
<b>Fiscal year ended September 30, 2007</b>						
Fourth quarter	12.83	14.76	12.61	115	98	0.22
Third quarter*	13.74	15.03	14.04	109	102	0.14

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

(3) Payable on October 1, 2009 to stockholders of record as of September 8, 2009.

\* From April 24, 2007 (initial public offering) to June 30, 2007.

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares. Our shares have traded above and below our NAV. Our shares traded on NASDAQ Global Select Market at \$7.10 and \$7.41 as of June 30, 2009 and September 30, 2008, respectively. Our NAV was \$11.72 and \$10.00, as of June 30, 2009 and September 30, 2008, respectively. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

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**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

At our meeting of stockholders held on August 25, 2009, our stockholders approved our ability to sell shares of our common stock below net asset value ( NAV ) per share in one or more public offerings of our common stock. We now have the ability to sell or otherwise issue our shares of our common stock at any level of discount from NAV per share during the period beginning on August 25, 2009 and expiring on the one year anniversary of the date of the meeting. In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our board of directors, a majority of our directors who have no financial interest in the sale and a majority of our independent directors considered a variety of factors, including:

The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;

The relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

Whether the estimated offering price would closely approximate the market value of our shares, less distributing commissions or discounts, and would not be below current market price;

The potential market impact of being able to raise capital during the current financial market difficulties;

The nature of any new investors anticipated to acquire shares in the offering;

The anticipated rate of return on and quality, type and availability of investments; and

The leverage available to us, both before and after the offering, and the terms thereof.

The offering of common stock being made pursuant to this prospectus supplement is at a price below our most recently reported NAV on June 30, 2009 of \$11.72 per share.

Our board of directors also considered the fact that sales of shares of common stock at a discount will benefit our Investment Adviser, as the Investment Adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of PennantPark Investment or from the offering of common stock at premium to NAV per share.

Sales by us of our common stock at a discount from NAV pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

The following three headings and accompanying tables explain and provide hypothetical examples assuming proceeds are temporarily invested in cash equivalents on the impact of an offering at a price less than NAV per share on three different set of investors:

existing shareholders who do not purchase any shares in the offering;

existing shareholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become shareholders by purchasing shares in the offering.

***Impact on Existing Stockholders who do not Participate in the Offering***

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. All stockholders will experience an immediate decrease (often

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called dilution) in the NAV of the shares they hold. Stockholders who do not participate in the offering will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than stockholders who do participate in the offering. All stockholders may also experience a decline in the market price of their shares, which often reflects, to some degree, announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

The following chart illustrates the level of NAV dilution that would be experienced by a stockholder who does not participate in the offering. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of June 30, 2009. NAV has not been finally determined for any day after June 30, 2009. The following example assumes a sale of 4,300,000 shares at a sales price to the public of \$8.00 per share with a 5.00% underwriting discount and commissions and \$200,000 of expenses (\$7.55 per share net).

	Prior to Sale Below NAV	Following Sale	% Change
<b>Offering Price</b>			
Price per share to public		\$ 8.00	
Net proceeds per share to issuer		\$ 7.55	
<b>Decrease to NAV</b>			
Total shares outstanding	21,068,772	25,368,772	20.41%
NAV per share	\$ 11.72	\$ 11.02	(6.03)%
<b>Dilution to Non participating Stockholder A</b>			
Shares held by stockholder	21,069	21,069	
Percentage held by stockholder	0.10%	0.08%	(16.95)%
<b>Total Asset Values</b>			
Total NAV held by stockholder	\$ 246,977	\$ 232,089	(6.03)%
Total investment by stockholder (assumed to be \$11.72 per share)	\$ 246,977	\$ 246,977	
Total dilution to stockholder (total NAV less total investment)		\$ (14,888)	
<b>Per Share Amounts</b>			
NAV per share held by stockholder		\$ 11.02	
Investment per share held by stockholder (assumed to be \$11.72 per share on shares held prior to sale)	\$ 11.72	\$ 11.72	
Dilution per share held by stockholder (NAV per share less investment per share)		\$ (0.70)	
Percentage dilution to stockholder (dilution per share divided by investment per share)			(6.03)%
<b>Impact on Existing Stockholders who Participate in the Offering</b>			

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and

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assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following chart illustrates the level of dilution and accretion in the offering for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 2,150 shares, which is 0.05% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 6,450 shares, which is 0.15% of the offering rather than its 0.10% proportionate share). The table below is shown based upon financial information as of June 30, 2009. NAV has not been finally determined for any day after June 30, 2009. The following example assumes a sale of 4,300,000 shares at a sales price to the public of \$8.00 per share with a 5.00% underwriting discount and commissions and \$200,000 of expenses (\$7.55 per share net).

	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
<b>Offering Price</b>					
Price per share to public		\$ 8.00		\$ 8.00	
Net proceeds per share to issuer		\$ 7.55		\$ 7.55	
<b>Increases in Shares and Decrease to NAV</b>					
Total shares outstanding	21,068,772	25,368,772	20.41%	25,368,772	20.41%
NAV per share	\$ 11.72	\$ 11.02	(6.03)%	\$ 11.02	(6.03)%
<b>(Dilution)/Accretion to Participating Stockholder A</b>					
Shares held by stockholder	21,069	23,219	10.20%	27,519	30.61%
Percentage held by stockholder	0.10%	0.09%	(8.47)%	0.11%	8.47%
<b>Total Asset Values</b>					
Total NAV held by stockholder	\$ 246,977	\$ 255,773	3.56%	\$ 303,141	22.74%
Total investment by stockholder (assumed to be \$11.72 per share on shares held prior to sale)	\$ 246,977	\$ 264,177	6.96%	\$ 298,577	20.89%
Total (dilution)/accretion to stockholder (total NAV less total investment)		(8,404)		\$ 4,564	
<b>Per Share Amounts</b>					
NAV per share held by stockholder		\$ 11.02		\$ 11.02	
Investment per share held by stockholder (assumed to be \$11.72 per share on shares held prior to sale)	\$ 11.72	\$ 11.38	(2.94)%	\$ 10.85	(7.44)%
(Dilution)/accretion per share held by stockholder (NAV per share less investment per share)		\$ (0.36)		\$ 0.17	
Percentage (dilution)/accretion to stockholder (dilution/accretion per share divided by investment per share)			(3.18)%		1.53%

**Table of Contents****Impact on New Investors**

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per share is greater than the resulting NAV per share (due to selling compensation and expenses paid by us) will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share (due to selling compensation and expenses paid by us) being significantly less than the discount per share, will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares. All these investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of dilution or accretion for new investors that will be experienced by a new investor who purchases the same percentage (0.10%) of the shares in the offering as the stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of June 30, 2009. NAV has not been finally determined for any day after June 30, 2009. The following example assumes a sale of 4,300,000 shares at a sales price to the public of \$8.00 per share with a 5.00% underwriting discount and commissions and \$200,000 of expenses (\$7.55 per share net).

	Prior to Sale Below NAV	Following Sale	% Change
<b>Offering Price</b>			
Price per share to public		\$ 8.00	
Net proceeds per share to issuer		\$ 7.55	
<b>Decrease to NAV</b>			
Total shares outstanding	21,068,772	25,368,772	20.41%
NAV per share	\$ 11.72	\$ 11.02	(6.03)%
<b>Accretion to New Stockholder A</b>			
Shares held by stockholder		4,300	
Percentage held by stockholder		0.02%	
<b>Total Asset Values</b>			
Total NAV held by stockholder		\$ 47,368	
Total investment by stockholder		\$ 34,400	
Total accretion to stockholder (total NAV less total investment)		\$ 12,968	
<b>Per Share Amounts</b>			
NAV per share held by stockholder		\$ 11.02	
Investment per share held by stockholder		\$ 8.00	
Accretion per share held by stockholder (NAV per share less investment per share)		\$ 3.02	
Percentage accretion to stockholder (accretion per share divided by investment per share)			37.70%

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**CERTAIN RELATIONSHIPS AND TRANSACTIONS**

On April 16, 2007, we sold 320,000 shares of common stock to our directors and officers, the Investment Adviser and the managers of the Investment Adviser at a price of \$15.00 per share in a private placement. We received the full proceeds of this private placement, and no underwriting discounts or commissions were paid in respect of these shares. Under a registration rights agreement signed at the time of such private placement, the holders of these shares received registration rights that entitle them to make up to two demands on us to register their shares under the Securities Act. In addition, these stockholders have certain piggy-back registration rights that entitle them to include their shares in certain registration statements that we may file. We will bear the expenses incurred in connection with the filing of any such registration statements.

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**Table of Contents****UNDERWRITING**

We intend to offer the shares through the underwriters named in the table below. SunTrust Robinson Humphrey, Inc. and BMO Capital Markets Corp. are acting as joint bookrunners and representatives of the several underwriters. Subject to the terms and conditions described in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase from us, 4,300,000 shares of our common stock.

<b>Name</b>	<b>Number of Shares</b>
SunTrust Robinson Humphrey, Inc.	1,935,000
BMO Capital Markets Corp.	860,000
Robert W. Baird & Co. Incorporated	344,000
FBR Capital Markets & Co	344,000
Keefe, Bruyette & Woods, Inc.	344,000
Stifel, Nicolaus & Company, Incorporated	344,000
ING Financial Markets LLC	86,000
Natixis Bleichroeder Inc.	43,000
<b>Total</b>	<b>4,300,000</b>

The underwriters have agreed that they must purchase all of the shares sold under the purchase agreement if they purchase any of them. However, the underwriters are not required to take or pay for the shares covered by the underwriters' overallotment option described below.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

**Commissions and Discounts**

The underwriters have advised us that they propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of \$0.22 per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$0.00 per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters' overallotment option to purchase up to an additional 645,000 shares.

	<b>Per Share</b>	<b>Without Option</b>	<b>With Option</b>
Public offering price	\$ 8.00	\$ 34,400,000	\$ 39,560,000
Underwriting discount	\$ 0.40	\$ 1,720,000	\$ 1,978,000
Proceeds, before expenses, to PennantPark Investment Corporation	\$ 7.60	\$ 32,680,000	\$ 37,582,000

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We estimate that the total expenses of the offering payable by us, not including underwriting discounts and commissions, will be approximately \$200,000.

### **Overallotment Option**

We have granted an option to the underwriters to purchase up to 645,000 additional shares at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise this option, they will be obligated, subject to conditions contained in the purchase agreement, to purchase the additional shares.

### **No Sales of Similar Securities**

We have agreed, with exceptions, not to sell or transfer any common stock for 30 days after the date of this prospectus without first obtaining the written consent of SunTrust Robinson Humphrey, Inc. and BMO Capital Markets Corp.

Our executive officers and directors and PennantPark Investment Corporation and certain of its affiliates have agreed, with exceptions, not to sell or transfer any common stock for 90 days after the date of this prospectus supplement without first obtaining the written consent of the representatives. Specifically, we and these other individuals and entities have agreed not to directly or indirectly:

offer, pledge, sell or contract to sell any common stock,

sell any option or contract to purchase any common stock,

purchase any option or contract to sell any common stock,

grant any option, right or warrant for the sale of any common stock,

lend or otherwise dispose of or transfer any common stock,

request or demand that we file a registration statement related to the common stock, or

enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

### **Quotation on the NASDAQ Global Select Market**

Our common stock is quoted on The NASDAQ Global Select Market under the symbol `PNNT`.

### **Price Stabilization and Short Positions**

Until the distribution of the shares is completed, SEC rules may limit the underwriters from bidding for and purchasing our common stock. However, the underwriters may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or

maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, (i.e., if they sell more shares than are listed on the cover of this prospectus supplement), the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the overallotment option described above. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the over allotment option. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

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Neither we nor the underwriters make any representation or prediction as to the magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor the underwriters makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Electronic Delivery**

The underwriters may make prospectuses available in electronic (PDF) format. A prospectus in electronic (PDF) format may be made available on a web site maintained by the underwriters, and the underwriters may distribute such prospectuses electronically. The underwriters may allocate a limited number of shares for sale to their online brokerage customers.

### **Other Relationships**

The underwriters and their affiliates have provided in the past to PennantPark Investment and may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to PennantPark Investment for which they will be entitled to receive separate fees. In particular, the underwriters or their affiliates may execute transactions with or on behalf of PennantPark Investment. In addition, the underwriters or their affiliates may act as arrangers, underwriters or placement agents for companies whose securities are sold to PennantPark Investment.

The underwriters or their affiliates may also trade in our securities, securities of our portfolio companies or other financial instruments related thereto for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to PennantPark Investment or any of the portfolio companies.

We may purchase securities of third parties from the underwriters or their affiliates after the offering. However, we have not entered into any agreement or arrangement regarding the acquisition of any such securities, and we may not purchase any such securities. We would only purchase any such securities if, among other things, we identified securities that satisfied our investment needs and completed our due diligence review of such securities.

After the date of this prospectus supplement, the underwriters and their affiliates may from time to time obtain information regarding specific portfolio companies or us that may not be available to the general public. Any such information is obtained by the underwriters and their affiliates in the ordinary course of its business and not in connection with the offering of the common stock. In addition, after the offering period for the sale of our common stock, the underwriters or their affiliates may develop analyses or opinions related to PennantPark Investment or our portfolio companies and buy or sell interests in one or more of our portfolio companies on behalf of their proprietary or client accounts and may engage in competitive activities. There is no obligation on behalf of these parties to disclose their respective analyses, opinions or purchase and sale activities regarding any portfolio company or regarding PennantPark Investment to our stockholders.

Affiliates of certain of the underwriters serve as lenders under our credit facility. Some of the underwriters and their affiliates were underwriters in connection with our initial public offering for which they received customary fees. Affiliates of the underwriters will receive part of the proceeds of the offering by reason of the repayment of amounts outstanding under our credit facility.

The principal business address of SunTrust Robinson Humphrey, Inc. is 3333 Peachtree Rd., NE, Atlanta, GA 30326. The principal business address of BMO Capital Markets Corp. is 3 Times Square, New York, NY 10036.



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**LEGAL MATTERS**

Certain legal matters regarding the securities offered by this prospectus supplement will be passed upon for PennantPark Investment Corporation by Dechert LLP, Washington, D.C., and Venable LLP, Baltimore, Maryland. Dechert LLP has from time to time represented the underwriters, PennantPark Investment Corporation and the Investment Adviser on unrelated matters. Certain legal matters in connection with the offering will be passed upon for the underwriters by Sutherland Asbill & Brennan LLP, Washington, D.C.

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**PROSPECTUS**

**\$250,000,000**

**Common Stock**

**Preferred Stock**

**Warrants**

**Subscription Rights**

**Debt Securities**

PennantPark Investment Corporation, a Maryland corporation, 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").

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. 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 Global Select Market under the symbol "PNNT". The last reported closing price for our common stock on August 31, 2009 was \$8.35 per share and our net asset value on June 30, 2009 was \$11.72 per share.

This prospectus and any accompanying prospectus supplement contain 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](http://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](http://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 us in Risk Factors beginning on page 9 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 September 22, 2009

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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 \$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.

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### **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 Investment** 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, 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.

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.

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 generally 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.

#### **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, provided 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.

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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 48 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.

### **About PennantPark Investment Administration**

Under our administration agreement, or 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.

### **Market Opportunity**

We believe that the size of the middle-market, coupled with the demands of these companies for flexible sources of capital, creates an attractive investment environment for PennantPark.

**We believe middle-market companies have faced increasing difficulty in raising debt through the capital markets.** While many middle-market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult as institutional investors have sought to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield debt securities.

**We believe that the current credit market dislocation improves the risk/reward of our investments.** The downturn in the credit market has resulted in less competition, more conservative capital structures, higher yields and stronger covenants.

**We believe there is a large pool of uninvested private equity capital which is likely to seek to combine their capital with sources of debt capital to complete private investments.** We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with mezzanine loans and/or senior secured loans provided by other sources, and we believe that our capital is well-positioned to partner with such equity investors. We expect such activity to be funded by the substantial amounts of private equity capital that have been raised in recent years.

**We believe that opportunities to invest mezzanine and other debt capital will remain strong.** We expect that the volume of domestic public-to-private transactions as well as the number of companies selecting a sale alternative versus raising capital in the public equity markets as a means of increasing liquidity will remain large. Additionally, the cost and effort associated with being a public company in the United States have become more onerous, causing many management teams to consider alternative liquidity strategies.





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### **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 believe our approach has and will continue to 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 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, alternative investment vehicles,

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such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available 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 our Investment Adviser, which 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 \$202.0 million (including a \$40.0 million temporary draw) and \$187.3 million of indebtedness outstanding at September 30, 2008 and June 30, 2009, respectively. Pricing on borrowings under our credit facility is set at 100 basis points over LIBOR. We believe that our substantial debt capital resources provide us with the flexibility to take advantage of market opportunities when they arise.

### **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 Investment. 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 business development company, 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 under the Internal Revenue Code of 1986, or the Code, as a regulated investment company, or RIC. For more information, see [Material U.S. Federal Income Tax Considerations](#).

### **Use of Proceeds**

We expect to use the net proceeds from selling securities pursuant to this prospectus primarily to reduce our outstanding obligations under our credit facility. We may also use such proceeds to 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. See [Use of Proceeds](#) for information regarding our outstanding borrowings as of June 30, 2009, 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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### **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 million 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 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](#).

### **Recent Developments**

On August 25, 2009, our common stockholders voted to allow us to issue common stock at a price below the net asset value per share for a period of one year ending August 25, 2010. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock; however, we do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interests to do so. Sales of common stock at prices below net asset value per

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share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We will describe the risks and dilutive effects of any offering that we make at a price below our then current net asset value in a prospectus supplement issued in connection with any such offering.

**Our Corporate Information**

Our administrative and principal executive offices are located at 590 Madison Avenue, 15<sup>th</sup> Floor, New York, NY 10022. Our common stock is quoted on NASDAQ Global Select Market 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.

**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. 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 us.

<b>Stockholder transaction expenses</b>	
Sales load (as a percentage of offering price)	___% <sup>(1)</sup>
Offering expenses (as a percentage of offering price)	___% <sup>(2)</sup>
<b>Total common stockholder expenses (as a percentage of offering price)</b>	<b>___%</b>
<b>Estimated annual expenses (as a percentage of net assets attributable to common shares)<sup>(3)</sup></b>	
Management fees	3.25% <sup>(4)</sup>
Incentive fees payable under the Investment Management Agreement	2.26% <sup>(5)</sup>
Interest payments on borrowed funds	2.06% <sup>(6)</sup>
Other expenses	1.66% <sup>(7)</sup>
<b>Total annual expenses</b>	<b>9.23%<sup>(8)</sup></b>

- (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) Net assets attributable to common shares equal net assets at June 30, 2009.
- (4) 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.
- (5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the nine months ended June 30, 2009, annualized for a full year. Such incentive fees are based on performance, vary from year to year 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. 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 nine months ended June 30, 2009. 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 in this prospectus.
- (6) As of June 30, 2009, we had \$112.7 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$187.3 million in borrowings outstanding under our \$300.0 million credit facility. We intend to use proceeds of an offering of securities under this

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registration statement primarily to repay outstanding obligations under our credit facility. After completing any such offering, we intend to continue to borrow under our credit facility to finance portfolio investments and are permitted to do so under the terms of our credit facility. We have estimated the interest payments on borrowed funds to take this into

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account; however, we caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing and may be substantially higher than the estimate provided in this table. For more information, see Risk Factors We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.

- (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 nine months ended June 30, 2009 annualized for a full year. See the Consolidated Statement of Operations in our financial statements.
- (8) Total annual expenses as a percentage of net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total 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 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 5.68% of total assets. For a presentation and calculation of total annual expenses based on total assets, see page 37 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 6.97% 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	\$ 110	\$ 239	\$ 362	\$ 649

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 provided 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 in this prospectus.

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**RISK FACTORS**

*Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus and the accompanying prospectus supplement, if any, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline or the value of our preferred stock, debt securities, warrants or subscription rights may decline, and you may lose all or part of your investment.*

**RISKS RELATING TO OUR BUSINESS AND STRUCTURE**

**Global capital markets have entered a period of severe disruption and instability. These market conditions have materially and adversely affected debt and equity capital markets in the United States, which has had, and may continue to have, a negative impact on our business and operations.**

Beginning in the summer of 2007 and continuing as of the date of this prospectus, the U.S. capital markets have experienced a period of disruption characterized by the freezing of credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. As a result of these events, general economic conditions have deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole and financial services firms in particular has been reduced significantly. These conditions could continue for a prolonged period of time or even materially worsen in the future. While these conditions persist, we may have difficulty accessing debt and equity capital in order to grow and may suffer material adverse effects on our business, financial condition, and results of operations.

**Volatility or a prolonged disruption in the credit markets could materially damage our business.**

We are required to record our assets at fair value, as determined in good faith by our board of directors in accordance with our valuation policy. As a result, volatility in the capital markets may adversely affect our valuations and our net asset value, even if we intend to hold respective investments to maturity. Volatility or dislocation in the capital markets may depress our stock price below our net asset value per share and create a challenging environment in which to raise debt and equity capital. As a business development company, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. Additionally, our ability to incur indebtedness is limited by applicable regulations such that our asset coverage under the 1940 Act must equal at least 200% immediately after each time we incur indebtedness. Shrinking portfolio values negatively impact our ability to borrow additional funds under our credit facility because our net asset value is reduced for purposes of the 200% asset leverage test. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a business development company and materially impair our business operations. A protracted disruption in the credit markets could also materially decrease demand for our investments.

The significant disruption in the capital markets has had and may continue to have a negative effect on the valuations of our investments, and on the potential for liquidity events involving our investments. The debt capital that will be available to us, if at all, may be at a higher cost and on less favorable terms and conditions in the future. A prolonged inability to raise capital will require us to reduce the volume of loans we originate and/or fund and could have a material adverse impact on our business, financial condition or results of operations. This may also increase the probability that other structural risks negatively impact us. These situations may arise due



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to circumstances that we may be unable to control, such as a protracted disruption in the credit markets, a severe decline in the value of the United States dollar, a sharp economic downturn or an operational problem that affects third parties or us, and could materially damage our business.

### **Current market developments may adversely affect our business and results of operations by reducing availability under our credit facility.**

In addition to the applicable asset coverage test that restricts our ability to borrow under our credit facility, this facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations. Our borrowings under our credit facility are collateralized by the assets in our investment portfolio. The agreements governing the credit facility require us to comply with certain financial and operational covenants. These covenants include:

A requirement to retain our status as a RIC;

A requirement to maintain a minimum amount of shareholder's equity; and

A requirement that our outstanding borrowings under the credit facility not exceed a certain percentage of the values of our portfolio companies.

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. For example, during the fiscal year ended September 30, 2008, net unrealized depreciation in our portfolio increased and, given the further deterioration in public debt and equity markets and pricing levels subsequent to this period, net unrealized depreciation in our portfolio may continue to increase in the future. Further material net asset devaluation in connection with additional borrowings could result in an inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of shareholders equity. This could have a material adverse effect on our operations, as it would trigger mandatory pre-payment obligations under the terms of the credit facility.

### **We rely in part on our senior secured investments to provide us with adequate liquidity, but even these investments face liquidity constraints under current market conditions.**

The market for senior secured debt investments and other over-the-counter traded securities has weakened as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the investments, which has decreased under current market conditions.

### **PennantPark Investment incurs credit risk when it loans money or commits to loan money to a portfolio company.**

Our primary business exposes us to credit risk, and the quality of our portfolio will have a significant impact on our earnings. Credit risk is a component part of our fair valuation of our portfolio companies. Negative credit events will lead to a decrease in the fair value of our portfolio companies.

In addition, current market developments have affected consumer confidence levels which may result in adverse changes in payment patterns. Increased delinquencies and default rates would impact our results of operations. Deterioration in the quality of our credit portfolio could have a material adverse effect on our capital, financial condition and results of operations.

### **Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.**

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide



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determination of our board of directors, then, at fair value as determined in good faith by or under the direction of our board of directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. The fair value of our portfolio companies on the whole has decreased substantially over the past two fiscal years. Unrealized losses of any given portfolio company could be an indication of such company's inability in the future to meet its repayment obligations to us. If the fair value of our portfolio companies reflects future realized losses, this would ultimately result in reductions of our income available for distribution in future periods and could materially harm our results of operations.

### **In the past following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company.**

If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

### **We have a limited operating history.**

We were incorporated in January 2007. We are subject to all of the business risks and uncertainties associated with any relatively new business, including the risk that we will not achieve our investment objectives and that the value of our common stock could decline substantially. We have used, and will continue to use, the proceeds of public offerings of securities and of our credit facility in accordance with our investment objectives.

### **We are dependent upon our Investment Adviser's key personnel for our future success, and if we or our Investment Adviser is unable to hire and retain qualified personnel or if we lose any member of our management team, our ability to achieve our investment objectives could be significantly harmed.**

We depend on the diligence, skill and network of business contacts of the investment professionals of our Investment Adviser. We also depend, to a significant extent, on PennantPark Investment Advisers' access to the investment information and deal flow generated by these investment professionals and any others that may be hired by PennantPark Investment Advisers. Mr. Penn and other managers of our Investment Adviser evaluate, negotiate, structure, close and monitor our investments. Our future success depends on the continued service of Mr. Penn and other management personnel of our Investment Adviser. The departure of Mr. Penn or any other managers of PennantPark Investment Advisers could have a material adverse effect on our ability to achieve our investment objectives. In addition, we can offer no assurance that PennantPark Investment Advisers will remain our Investment Adviser.

### **Our borrowers may default on their payments, which may have a materially negative effect on our financial performance.**

We make long-term, subordinated loans and invest in equity securities, which may involve a high degree of repayment risk. We invest in companies that may have limited financial resources, may be highly leveraged and may be unable to obtain financing from traditional sources. Accordingly, a general economic downturn or severe tightening in the credit markets could materially impact the ability of our borrowers to repay their loans, which could significantly damage our business. Numerous other factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan or a downturn in its industry. A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans or foreclosure on its secured assets. This could trigger cross defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the loans or debt securities that we hold. In addition, our portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with our securities. This means that payments on such senior-ranking securities may have to be made before we receive any payments on our subordinated loans or debt securities. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral and may have a materially negative effect on our financial results.

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### **Our financial condition and results of operation will depend on our ability to manage future growth effectively.**

Our ability to achieve our investment objectives will depend on our ability to grow, which will depend, in turn, on our Investment Adviser's ability to identify, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis will be largely a function of our Investment Adviser's structuring of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. The management team of PennantPark Investment Advisers has substantial responsibilities under our Investment Management Agreement. In order to grow, we and our Investment Adviser will need to hire, train, supervise and manage new employees. However, we can offer no assurance that any such employees will contribute effectively to the work of the Investment Adviser. We caution you that the Investment Adviser may also be called upon to provide managerial assistance to portfolio companies as the principals of our Administrator and other investment vehicles which may be managed by the Investment Adviser. Such demands on their time may distract them or slow our rate of investment. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

### **We operate in a highly competitive market for investment opportunities.**

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with public and private funds, including 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, alternative investment vehicles, such as hedge funds, also invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. Most of our potential 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 cannot offer any assurances that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Entrants in our industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. We do not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that are lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

### **PennantPark Investment may not replicate the historical performance of other investment companies with which Mr. Penn and our other investment professionals have been affiliated.**

The 1940 Act imposes numerous constraints on the investment activities of business development companies. For example, business development companies are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded public companies with a market capitalization of less than \$250 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. These constraints may hinder our Investment Adviser's ability to take advantage of attractive investment opportunities and to achieve our investment objectives. Mr. Penn, our Chief Executive

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Officer and the Managing Member of our Investment Adviser, has had more than two years of experience managing the investments of PennantPark Investment and approximately three years of experience managing another business development company. However, current market conditions and the depressed economic cycle present significant challenges to us that have not been present in recent years, if ever. In addition, the investment philosophy and techniques used by our Investment Adviser may differ from those used by other investment companies. Accordingly, we can offer no assurance that PennantPark Investment will replicate the historical performance of other investment companies with which Mr. Penn and our other investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

### **Any failure on our part to maintain our status as a business development company would reduce our operating flexibility.**

If we do not remain a business development company, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility.

### **Loss of RIC tax treatment would substantially reduce net assets and income available for debt service and dividends.**

We have operated so as to qualify as a RIC under Subchapter M of the Code. If we meet source of income, asset diversification, and distribution requirements, we generally will not be subject to corporate-level income taxation on income we timely distribute, or deem to distribute, to our stockholders as dividends. We would cease to qualify for such tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting the requirement to make distributions to our stockholders because in certain cases we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for debt service and distributions to our stockholders. Even if we qualify as a RIC, we generally will be subject to a corporate-level income tax on the income we do not distribute. If we do not distribute at least 98% of our annual taxable income (excluding net long-term capital gains retained or deemed to be distributed) in the year earned, we generally will be required to pay an excise tax on amounts carried over and distributed to shareholders in the next year equal to 4% of the amount by which 98% of our annual taxable income available for distribution exceeds the distributions from such income for the current year.

### **We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.**

For federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount or contracted payment-in-kind, or PIK, interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to our overall investment assets, and increases in loan balances as a result of contracted PIK interest will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

The part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

In some cases we may recognize income before or without receiving cash representing such income. As a result, we may have difficulty meeting the tax requirement to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to obtain RIC tax

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benefits. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax benefits and thus be subject to corporate level income tax.

### **Regulations governing our operation as a business development company will affect our ability to, and the way in which we, raise additional capital.**

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock, the issuance of warrants or subscription rights to purchase certain of our securities, or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as senior securities, and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such issuance or incurrence. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous, which could materially damage our business.

*Senior Securities.* As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank senior to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.

*Additional Common Stock.* Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a business development company, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our board of directors. We may, however, subject to the requirements of the 1940 Act, issue rights to acquire our common stock at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, we note that for us to file a post-effective amendment to a registration statement on Form N-2, we must then be qualified to register our securities on Form S-3. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.

*Securitization.* In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. We

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would retain all or a portion of the equity in the securitized pool of loans. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We would not treat the debt issued by such a subsidiary as senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses.

**We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.**

Because we borrow funds to make investments we are exposed to increased risk of loss due to our use of debt to make investments. A decrease in the value of our investments will have a greater negative impact on the net asset value attributable to our common stock than it would if we did not use debt. Our ability to pay distributions is restricted when our asset coverage ratio is not at least 200%, and any amounts that we use to service our indebtedness are not available for distribution to our common stockholders.

Our current and future debt is governed by the terms of our credit facility and may be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing debt. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock.

**Market conditions may make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business.**

We currently utilize a revolving five-year, \$300 million credit facility to make investments in our portfolio companies. Our credit facility expires in June 2012. The life of our investments typically exceeds the duration of our indebtedness under our credit facility. This means that we will have to extend the maturity of our credit facility or refinance our indebtedness under our credit facility in order to continue to maintain control over our portfolio assets. If we fail to refinance the indebtedness outstanding under our credit facility at the time it becomes due and payable, the administrative agent of the credit facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the credit facility, subject to certain restrictions. The illiquidity of our investments may make it difficult for us to sell such investments. If we are required to sell our investments on short-term notice, we may not receive the value that we have recorded for such investments, and this could materially damage our results of operations.

**If we incur additional debt, it could increase the risk of investing in our shares.**

We have indebtedness outstanding pursuant to our credit facility and expect in the future to borrow additional amounts under our credit facility and, subject to market availability, to increase the size of our credit facility. Lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or preferred stockholders, if any, and we have granted a security interest in our assets in connection with our credit facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common or

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preferred stock. Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures.

As of June 30, 2009 we had outstanding borrowings of \$187.3 million under our credit facility with an annual interest rate at that time of 1.31%. Accordingly, to cover the annual interest on our borrowings outstanding at June 30, 2009 at the then current rate we would have to receive an annual return of at least 0.6%. This example is for illustrative purposes only, and actual interest rates on our credit facility borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee payable to our Investment Adviser, will be borne by our common stockholders.

As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock we may issue in the future, of at least 200%. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions.

The following table is designed to illustrate the effect on return to a holder of our common stock of the leverage created by our use of borrowing at June 30, 2009 of 33% of our total assets (including such borrowed funds), at the weighted average annual interest rate of 1.31% and assuming hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses) <sup>(1)</sup>	-10.0%	-5.0%	0	5.0%	10.0%
Corresponding return to common stockholders <sup>(2)</sup>	-17.2%	-9.1%	-1.0%	7.1%	15.2%

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.

(2) In order to compute the corresponding return to common stockholders, the assumed return on portfolio is multiplied by the total value of our assets at the beginning of the period to obtain an assumed return to us. From this amount, all interest expense expected to be accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of the beginning of the period to determine the corresponding return to common stockholders.

The table also assumes that we will maintain a constant level of leverage. The amount of leverage that we use will vary from time to time.

**Changes in interest rates may affect our cost of capital and net investment income.**

Since we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In the period from June 25, 2007, when we executed our credit facility, through June 30, 2009, the applicable LIBOR rate has decreased from 5.32% to 0.31%. In periods of rising interest rates, our cost of funds will increase, which could reduce our net investment income. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions, and we will initially have to purchase or develop such expertise. See Management's Discussion and Analysis of Financial Conditions and Results of Operations Quantitative and Qualitative Disclosures about Market Risk.



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A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle and may result in a substantial increase of the amount of incentive fees payable to our Investment Adviser with respect to Pre-Incentive Fee Net Investment Income. For a definition of Pre-Incentive Fee Net Investment Income, see Certain Relationships and Transactions Investment Management Agreement in this prospectus.

### **We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for loss and the risks of investing in us in the same way as our borrowings.**

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. If we issue preferred securities they would rank senior to common stock in our capital structure. Payment of dividends on, and repayment of the liquidation preference of, such preferred stock would typically take preference over any dividends or other payments to our common stockholders. Also, preferred stockholders are not, typically, subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference. Furthermore, preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of our common stock. Also, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.

### **We may in the future determine to fund a portion of our investments with debt securities, which would magnify the potential for loss and the risks of investing in us in the same way as our borrowings.**

As a result of an issuance of debt securities, we would be exposed to typical risks associated with leverage, including an increased risk of loss and an increase in expenses, which are ultimately borne by our common stockholders. Payment of interest on such debt securities must take preference over any other dividends or other payments to our common stockholders. If we issue debt securities, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. In addition, such securities may be rated by rating agencies, and in obtaining a rating for such securities, we may be required to abide by operating and investment guidelines that could further restrict our operating flexibility. Furthermore, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders.

### **If we issue preferred stock and/or debt securities, the net asset value and market value of our common stock may become more volatile.**

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock and/or debt securities would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock and/or debt

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securities or of a downgrade in the ratings of the preferred stock and/or debt securities or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund a redemption of some or all of the preferred stock and/or debt securities. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock and/or debt securities. Holders of preferred stock and/or debt securities may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

### **Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.**

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

### **The trading market or market value of any publicly issued debt securities may be volatile.**

If we publicly issue debt securities, they may or may not have an established trading market. We cannot assure investors that a trading market for our publicly issued debt securities would develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include the following:

the time remaining to the maturity of these debt securities;

the outstanding principal amount of debt securities with terms identical to these debt securities;

the supply of debt securities trading in the secondary market, if any;

the redemption or repayment features, if any, of these debt securities;

the level, direction and volatility of market interest rates generally; and

market rates of interest higher or lower than rates borne by the debt securities.

There also may be a limited number of buyers for our debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

### **Our credit ratings may not reflect all risks of an investment in debt securities.**

Our credit ratings are an assessment of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of any publicly issued debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of, or trading market for, any publicly issued debt securities.

### **Terms relating to redemption may materially adversely affect the return on any debt securities.**

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If we issue debt securities that are redeemable at our option, we may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if the debt securities are subject to mandatory redemption, we may be required to redeem the debt securities at times

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when prevailing interest rates are lower than the interest rate paid on the debt securities. In this circumstance, a holder of our debt securities may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the debt securities being redeemed.

**We have obtained, and in the future we may again obtain, the approval of our stockholders to issue shares of our common stock at prices below the then current net asset value per share of our common stock. Any such issuance could materially dilute your interest in our common stock and reduce our net asset value per share.**

On August 25, 2009 our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of 12 months. This proposal would allow us to access the capital markets in a way that we were previously unable to as a result of restrictions that, absent stockholder approval, apply to business development company under the 1940 Act. Any decision to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings is subject to the determination by our board of directors that such issuance and sale is in our and our stockholders best interests.

Any sale or other issuance of shares of our common stock at a price below net asset value per share would result in an immediate dilution to your interest in our common stock and a reduction of our net asset value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

Because the number of shares of common stock that may be issued below our net asset value per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our net asset value per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering.

**If we issue subscription rights or warrants for our common stock, your interest in us may be diluted as a result of such rights or warrants offering.**

Stockholders who do not fully exercise rights or warrants issued to them in an offering of subscription rights or warrants to purchase our common stock should expect that they will, at the completion of the offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights or warrants. We cannot state precisely the amount of any such dilution in share ownership because we do not know what proportion of the common stock would be purchased as a result of any such offering.

In addition, if the subscription price or warrant price is less than our net asset value per share of common stock at the time of such offering, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any such decrease in net asset value is not predictable because it is not known at this time what the subscription price, warrant price or net asset value per share will be on the expiration date of such rights offering or what proportion of our common stock will be purchased as a result of any such offering.

**We will be exposed to risks associated with changes in interest rates.**

General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high-yield

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bonds, and also could increase our interest expense, thereby decreasing our net income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

### **We will need to raise additional capital to grow because we must distribute most of our income.**

We may need additional capital to fund the growth of our investments. We have issued equity securities and have borrowed from financial institutions. A reduction in the availability of new capital could limit our ability to grow. We will be required to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to maintain our RIC status. As a result, these earnings will not be available to fund new investments. If we fail to obtain additional capital to fund our investments, this could limit our ability to grow, which may have an adverse effect on the value of our securities.

In addition, as a business development company, we are generally required to maintain a ratio of total assets to total borrowings of at least 200%. This may restrict our ability to borrow in certain circumstances.

### **We may experience fluctuations in our quarterly results.**

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. However, as a result of our irrevocable election to apply the fair value option to our credit facility future decreases of fair value of our debt will have a corresponding increase to our net asset value. Further increases of the fair value of our debt will have the opposite effect. This will tend to mitigate volatility in our earnings. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

### **There are significant potential conflicts of interest which could impact our investment returns.**

The partners of our Investment Adviser may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by affiliates of PennantPark Investment that may be formed in the future. The Investment Adviser has not yet undertaken any such services, but may do so at any time and without the prior approval of our stockholders or our board of directors. Our board of directors monitors any potential conflict that may arise upon such a development. Accordingly, if this occurs, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders.

In the course of our investing activities, we will pay investment advisory and incentive fees to our Investment Adviser, and will reimburse our Investment Adviser for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Accordingly, there may be times when the management team of the Investment Adviser has interests that differ from those of our stockholders, giving rise to a conflict.

We have entered into a license agreement (the License Agreement) with PennantPark Investment Advisers, pursuant to which our Investment Adviser has agreed to grant us a royalty-free non-exclusive license to use the name PennantPark. Under the License Agreement, we will have the right to use the PennantPark name for so long as the Investment Adviser or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we have no legal right to the PennantPark name. In addition, we pay PennantPark Investment Administration, an affiliate of the Investment Adviser, our allocable portion of overhead and other expenses incurred by PennantPark Investment Administration in performing its obligations under our

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Administration Agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs. These arrangements may create conflicts of interest that our board of directors must monitor.

### **Changes in laws or regulations governing our operations may adversely affect our business.**

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations could have a material adverse effect on our business.

### **Our board of directors may change our investment objectives, operating policies and strategies without prior notice or stockholder approval.**

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

## **RISKS RELATING TO THE ILLIQUID NATURE OF OUR PORTFOLIO ASSETS**

### **We invest in illiquid assets, and our valuation procedures with respect to such assets may result in our recording values that are materially different than the values we ultimately receive upon disposition of such assets.**

All of our investments are recorded using broker/dealers quotes, or at fair value as determined in good faith by our board of directors. We expect that most, if not all, of our investments (other than cash and cash equivalents) and credit facility borrowings will be classified as Level 3 under Statement of Financial Accounting Standards, or SFAS, 157, *Fair Value Measurement*, or collectively SFAS 157. This means that our portfolio valuations will be based on unobservable inputs and our own assumptions about how market participants would price the asset or liability. We expect that inputs into the determination of fair value of our portfolio investments and credit facility borrowings will require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer materially reduces the reliability of such information.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. In determining fair value in good faith, we generally obtain financial and other information from portfolio companies, which may represent unaudited, projected or pro forma financial information. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses. We are instead required by the 1940 Act to specifically fair value each individual investment on a quarterly basis. We record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value. Likewise, we record unrealized depreciation if we believe that the underlying portfolio company has depreciated in value. As a result, there will be uncertainty as to the value of our portfolio investments.

We adjust quarterly the valuation of our portfolio to reflect our board of directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation.

At June 30, 2009, most of our portfolio assets were recorded at fair value as determined in good faith by our board of directors. As we invest a greater percentage of our total assets in core assets, more of our portfolio assets will be recorded at fair value as determined in good faith by our board of directors. Our board of directors uses

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the services of one or more nationally recognized independent valuation firms to aid it in determining the fair value of these securities. The factors that may be considered in fair value pricing of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Because valuations may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Additionally, valuations of private securities and private companies are inherently uncertain. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

### **The lack of liquidity in our investments may adversely affect our business.**

We may acquire our core investments directly from the issuer in privately negotiated transactions. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. We typically exit our investments when the portfolio company has a liquidity event such as a sale, recapitalization, or initial public offering of the company, but we are not required to do so.

The illiquidity of our investments may make it difficult or impossible for us to sell such investments if the need arises, particularly in light of current market developments in which investor appetite for illiquid securities has substantially diminished. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

Securities purchased by us that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the securities, market events, economic conditions or investor perceptions. Domestic and foreign markets are complex and interrelated, so that events in one sector of the world markets or economy, or in one geographical region, can reverberate and have materially negative consequences for other market, economic or regional sectors in a manner that may not be foreseen and which may materially harm our business.

### **A general disruption in the credit markets could materially damage our business.**

We are susceptible to the risk of significant loss if we are forced to discount the value of our investments in order to provide liquidity to meet our liability maturities. Our borrowings under our credit facility are collateralized by the assets in our investment portfolio. A general disruption in the credit markets could result in a diminished appetite for our securities. In addition, with respect to over-the-counter traded securities, the continued viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a business development company and materially impair our business operations. Our liquidity could be impaired further by an inability to access the capital markets or to draw down our credit facility. These situations may arise due to circumstances that we may be unable to control, such as a general disruption in the credit markets, a severe decline in the value of the United States dollar, a sharp economic downturn or an operational problem that affects third parties or us, and could materially damage our business.

### **We rely in part on our senior secured securities to provide us with adequate liquidity, but even these securities face liquidity constraints under current market conditions.**

The market for senior secured debt securities and other over-the-counter traded securities has weakened as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities. This demand has slackened under current market conditions.

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### **RISKS RELATED TO OUR INVESTMENTS**

#### **Our investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.**

We intend to invest primarily in mezzanine debt, senior secured loans and selected equity investments issued by U.S. middle-market companies.

*Mezzanine Debt:* Our mezzanine debt investments will generally be subordinated to senior secured loans and will generally be unsecured. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we will not receive cash prior to the maturity of some of our mezzanine debt investments, such investments may be of greater risk than cash paying loans.

*Senior Secured Loans:* When we extend senior secured loans, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, although this will not always be the case. We expect this security interest, if any, to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

*Equity Investments:* We have made and expect to continue to make selected equity investments. In addition, when we invest in senior secured loans or mezzanine debt, we may acquire warrants to purchase equity investments from time to time. Our goal is ultimately to dispose of these equity investments and realize gains upon our disposition of such interests. However, the equity investments we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity investments, and any gains that we do realize on the disposition of any equity investments may not be sufficient to offset any other losses we experience.

In addition, investing in middle-market companies involves a number of significant risks, including:

these companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;

they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;

they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance



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expansion or maintain their competitive position. In addition, our executive officers, directors and our Investment Adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

**We may invest up to 30% of our assets in investments that are not qualifying assets for business development companies under the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could be precluded from investing in assets that we deem to be attractive.**

As a business development company, we may not acquire any asset other than qualifying assets, as defined under the 1940 Act, unless at the time the acquisition is made such qualifying assets represent at least 70% of the value of our total assets. Qualifying assets include investments in U.S. operating companies whose securities are not listed on a national securities exchange and companies listed on a national securities exchange subject to a market capitalization limit of \$250 million. Qualifying assets also include cash, cash items, government securities and high quality debt securities maturing in one year or less from the time of investment. See Regulation in this prospectus for a complete list of the qualifying assets in which we may invest.

We believe that most of our senior secured loans and mezzanine debt investments will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we will be prohibited from making any additional investment that is not a qualifying asset and could be forced to forgo attractive investment opportunities. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

**We are a non-diversified investment company within the meaning of the 1940 Act. The 1940 Act does not limit the proportion of our assets that may be invested in securities of a single issuer, although we are required to diversify our assets in order to meet the requirements for a RIC under the Code.**

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on stakeholdings in investment companies. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. As a RIC, we are required to diversify our assets, but we do not have any fixed guidelines for diversification under the 1940 Act.

**Economic recessions or downturns could impair our portfolio companies and harm our operating results.**

We are in a prolonged recession. Many of our portfolio companies are susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a material decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and materially harm our operating results.

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A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and potential termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. Depending on the facts and circumstances of our investments and the extent of our involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy court may recharacterize our debt investments as equity investments and subordinate all or a portion of our claim to that of other creditors. This could occur even though we may have structured our investment as senior secured loans.

### **If we fail to make follow-on investments in our portfolio companies, this could impair the value of our portfolio.**

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in order to:

increase or maintain in whole or in part our equity ownership percentage;

exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or

attempt to preserve or enhance the value of our investment. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments.

We have the discretion to make any follow-on investments, subject to the availability of capital resources. Any failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with business development company requirements or the desire to maintain our tax status.

### **Because we do not generally hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.**

Although we may do so in the future, we do not currently have controlling equity positions in our portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity for the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company, and may therefore suffer a decrease in the value of our investments.

### **An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.**

We have invested and intend to continue to invest primarily in privately held companies. Generally, little public information exists about these companies, and we will rely on the ability of our Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If they are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately held companies

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frequently have less diverse product lines and smaller market presence than larger competitors. These factors could materially adversely affect our investment returns as compared to companies investing primarily in the securities of public companies.

### **Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.**

We invest primarily in mezzanine debt, senior secured loans and equity investments issued by our portfolio companies. The portfolio companies usually will have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

### **Our incentive fee may induce the Investment Adviser to make speculative investments.**

The incentive fee payable by us to PennantPark Investment Advisers may create an incentive for PennantPark Investment Advisers to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our Investment Adviser is calculated based on a percentage of our return on invested capital. This may encourage our Investment Adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock. In addition, our Investment Adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle applicable to the portion of the incentive fee based on net capital gains. As a result, the Investment Adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

### **We may make investments that cause our shareholders to bear investment advisory fees and other expenses on such investments in addition to our management fees and expenses.**

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of investment company provided in Section 3(c) of the 1940 Act. To the extent we so invest, we will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay investment advisory fees, consisting of a base management fee and incentive fees, to PennantPark Investment Advisers with respect to investments in the securities and instruments of other investment companies under our Investment Management Agreement. With respect to any such investments, each of our stockholders will bear his or her share of the investment advisory fees of PennantPark Investment Advisers as well as indirectly bearing the investment advisory fees and other expenses of any investment companies in which we invest.

### **We may be obligated to pay our Investment Adviser incentive compensation even if we incur a loss.**

Our investment adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net

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operating losses and certain other items) above a threshold return for that quarter. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our manager incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

### **Our investments in foreign debt securities may involve significant risks in addition to the risks inherent in U.S. investments.**

Our investment strategy contemplates potential investments in securities of companies located outside of the United States. Investing in companies located outside of the United States may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective.

### **We may expose ourselves to risks if we engage in hedging transactions.**

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may borrow under a credit facility in currencies selected to minimize our foreign currency exposure or use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

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### **Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.**

The Maryland General Corporation Law, our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of PennantPark Investment or the removal of our directors. We are subject to the Maryland Business Combination Act, the application of which is subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting us from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our common stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, the Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such an offer.

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

### **RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK**

#### **There is a risk that our stockholders may not receive distributions or that our distributions may not grow over time.**

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Further, if more stockholders opt to receive cash dividends and other distributions rather than participate in our dividend reinvestment plan, we may be forced to liquidate some of our investments and raise cash in order to make distribution payments, which could materially harm our business. Finally, to the extent we make distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of our common stock.

#### **Investing in our shares may involve an above average degree of risk.**

The investments we make in accordance with our investment objectives may result in a higher amount of risk and volatility than alternative investment options or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

#### **There is a risk that our common stockholders may receive our stock as dividends**

On January 7, 2009, the Internal Revenue Service issued a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared with respect to a taxable year ending on or

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before December 31, 2009 and (3) each shareholder may elect to receive his or her entire distribution in either cash or stock of the regulated investment company subject to a limitation on the aggregate amount of cash to be distributed to all shareholders, which must be at least 10% of the aggregate declared distribution. If too many shareholders elect to receive cash, each shareholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any shareholder electing to receive cash receive less than 10% of his or her entire distribution in cash.

If we distribute our common stock as a dividend of our taxable income, a shareholder could receive up to 90% of the amount of the dividend declared in shares of our common stock with the remaining amount in cash. The total dividend declared would be taxable income to a shareholder although he or she may only receive 10% of the dividend in cash to pay any taxes due on the dividend.

### **We may allocate the net proceeds from an offering in ways with which you may not agree.**

We have significant flexibility in investing the net proceeds of an offering and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

### **Our shares may trade at discounts from net asset value or at premiums that are unsustainable over the long term.**

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares. Our shares have traded above and below our NAV. Our shares traded on NASDAQ Global Select Market at \$7.10 and \$7.41 as of June 30, 2009 and September 30, 2008, respectively. Our NAV was \$11.72 and \$10.00, as of June 30, 2009 and September 30, 2008, respectively. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

### **The market price of our common stock may fluctuate significantly.**

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;

changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

any loss of RIC status;

changes in earnings or variations in operating results;

changes in the value of our portfolio of investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the inability of our Investment Adviser to employ additional experienced investment professionals or the departure of any of the Investment Adviser's key personnel, including Mr. Penn;

operating performance of companies comparable to us;

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general economic trends and other external factors; and

loss of a major funding source.

Since our initial listing on the NASDAQ Global Select Market, our shares of common stock have traded at a wide range of prices. We can offer no assurance that our shares of common stock will not display similar volatility in future periods.

**We may be unable to invest the net proceeds raised from offerings on acceptable terms, which would harm our financial condition and operating results.**

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less or use the net proceeds from such offerings to reduce then-outstanding obligations under our credit facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.



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**FORWARD-LOOKING STATEMENTS**

This prospectus contains statements that constitute forward-looking statements, which relate to future events or our future performance or financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our prospective portfolio companies;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the impact of a protracted decline in the liquidity of credit markets on our business;

the impact of investments that we expect to make;

the impact of fluctuation in interest rates on our business;

our contractual arrangements and relationships with third parties;

the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

the ability of our prospective portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our prospective portfolio companies; and

the ability of our Investment Adviser to locate suitable investments for us and to monitor and administer our investments.

We use words such as anticipates, believes, expects, intends, seeks and similar expressions to identify forward-looking statements. Undue influence should not be placed on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in our preliminary prospectus entitled Risk Factors and elsewhere.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any

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forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through supplemental prospectus that we in the future may file with the Securities and Exchange Commission, or the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

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**USE OF PROCEEDS**

We expect to use the net proceeds from selling securities pursuant to this prospectus primarily to reduce outstanding obligations under our credit facility. We may also use such proceeds to 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.

As of June 30, 2009, we had \$112.7 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$187.3 million in borrowings outstanding under our \$300 million credit facility. Borrowings under our credit facility bear an annual interest rate equal to LIBOR + 100 basis points, per annum. At June 30, 2009, this corresponded to an interest rate of 1.31%. The credit facility is a five-year revolving facility with a stated maturity date of June 25, 2012 and is secured by substantially all of the assets in our investment portfolio.

We intend to invest the proceeds from an offering of securities in new or existing portfolio companies, and such investments may take up to two years from the closing of such offering, in part because privately negotiated investments in illiquid securities or private middle-market companies require substantial due diligence and structuring. During this period, we would expect to use the net proceeds from our offering to reduce then-outstanding obligations under our credit facility or to invest such proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to earn yields on such investments, if any, that are lower than the interest income that we anticipate receiving in respect of investments in our core assets. As a result, any distributions we make during this investment period may be lower than the distributions that we would expect to pay when such proceeds are fully invested in core assets. The management fee payable by us will not be reduced while our assets are invested in any such securities. See Regulation Temporary Investments for additional information about temporary investments we may make prior to investing in core assets.

**Table of Contents****SELECTED FINANCIAL DATA**

We have derived the quarterly financial information below from our unaudited financial data and, in the opinion of management, such information 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 nine months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. The Statement of operations data, Per share data and Balance sheet data for the year ended September 30, 2008 and 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)	Nine months ended June 30, 2009 (Unaudited)	Year ended September 30, 2008 (Audited)	For the period from January 11, 2007 (Inception) through September 30, 2007 (Audited)
<b>Statement of operations data:</b>			
Total investment income	\$ 33,271	\$ 39,811	\$ 13,107
Net expenses before base management fee waiver	16,570	21,676	6,444
Net expenses after base management fee waiver <sup>(1)</sup>	16,570	21,255	5,803
Net investment income	16,701	18,556	7,305
Net realized and unrealized loss	(7,078)	(59,259)	(24,003)
Net increase/(decrease) in net assets resulting from operations	9,622	(40,703)	(16,699)
<b>Per share data:</b>			
Net asset value (at period end)	\$ 11.72	\$ 10.00	\$ 12.83
Net investment income	0.79	0.88	0.35
Net realized and unrealized loss	(0.34)	(2.81)	(1.15)
Net increase/(decrease) in net assets resulting from operations	0.45	(1.93)	(0.80)
Distributions declared	0.72	0.90	0.36
<b>Balance sheet data (at period end):</b>			
Total assets	\$ 401,103	\$ 419,811	\$ 555,008
Total investment portfolio	393,138	372,148	291,017
Borrowings outstanding	134,058 <sup>(4)</sup>	202,000	10,000
Payable for investments and unfunded investments	10,515		273,339
Other liabilities	9,553	7,082	1,281
Total net asset value	246,977	210,728	270,393
<b>Other data:</b>			
Total return <sup>(2)</sup>	10.88%	(38.58)%	(8.29)%
Number of portfolio companies (at period end)	37	37 <sup>(3)</sup>	38 <sup>(3)</sup>
Yield on debt portfolio (at period end)	10.40%	11.10% <sup>(3)</sup>	10.10% <sup>(3)</sup>

(1) The base management fee waiver was in effect from Inception 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 is not annualized.

(3) Unaudited.

(4) At fair value.

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(dollar amounts in thousands, except per share data)

	Q3	2009 Q2	Q1
Total investment income	\$ 10,770	\$ 10,425	\$ 12,077
Net investment income (loss)	\$ 5,666	\$ 5,267	\$ 5,768
Net realized and unrealized gain (loss)	\$ (6,486)	\$ 36,932	\$ (37,525)
Net increase (decrease) in net assets resulting from operations	\$ (820)	\$ 42,199	\$ (31,757)
Earnings per common share	\$ (0.04)	\$ 2.00	\$ (1.51)
Net asset value per share at the end of the quarter	\$ 11.72	\$ 12.00	\$ 10.24
Market value per share at the end of the quarter	\$ 7.10	\$ 3.75	\$ 3.61

	Q4	2008 Q3	Q2	Q1
Total investment income	\$ 11,431	\$ 9,662	\$ 9,714	\$ 9,004
Net investment income (loss)	\$ 5,434	\$ 3,941	\$ 4,449	\$ 4,732
Net realized and unrealized gain (loss)	\$ (16,475)	\$ 11,263	\$ (37,778)	\$ (16,269)
Net increase (decrease) in net assets resulting from operations	\$ (11,041)	\$ 15,204	\$ (33,329)	\$ (11,537)
Earnings per common share	\$ (0.53)	\$ 0.72	\$ (1.58)	\$ (0.54)
Net asset value per share at the end of the quarter	\$ 10.00	\$ 10.77	\$ 10.26	\$ 12.07
Market value per share at the end of the quarter	\$ 7.41	\$ 7.21	\$ 8.51	\$ 10.02

	Q4	2007 Q3	Q2*
Total investment income	\$ 6,909	\$ 5,425	\$ 773
Net investment income (loss)	\$ 4,348	\$ 3,208	\$ (251)
Net realized and unrealized gain (loss)	\$ (18,870)	\$ (5,152)	\$ 18
Net increase (decrease) in net assets resulting from operations	\$ (14,522)	\$ (1,944)	\$ (234)
Earnings per common share	\$ (0.70)	\$ (0.09)	\$ (0.01)
Net asset value per share at the end of the quarter	\$ 12.83	\$ 13.74	\$ 12.08
Market value per share at the end of the quarter	\$ 13.40	\$ 14.04	(1)

\* From January 11, 2007 (inception of operations)

(1) Our common shares began trading on April 19, 2007.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the selected financial data and our financial statements and notes thereto appearing elsewhere in this prospectus.*

**Overview**

PennantPark was organized under the Maryland General Corporation Law in January 2007. We are an externally managed, closed-end, non-diversified investment company that has elected to be treated as a business development company under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of U.S. private companies or thinly traded public companies, with a market capitalization of less than \$250 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of us and PennantPark Investment Advisers. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross total assets as well as an incentive fee based on our investment performance. We have also entered into an Administration Agreement with PennantPark Investment Administration. 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 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.

The companies in which we invest are typically highly leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, 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.

We expect that our investments in mezzanine debt, senior secured loans and other investments will range between \$10 million and \$50 million each. We expect this investment size to vary proportionately with the size of our capital base.

We are currently operating in a severely constrained credit market. 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. The turmoil in the credit markets is adversely affecting each of these factors and has resulted in broad-based reduction in the demand for, and valuation of, high-risk debt instruments. These conditions may present us with attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. However, these market conditions are also adversely affecting our portfolio valuations and increase the risk of default among our portfolio companies, which could negatively impact our performance.

**Revenues**

We generate revenue in the form of interest income on the debt securities we hold and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of mezzanine debt or senior secured loans, typically have a term of three to ten years and

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bear interest at a fixed or floating rate. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments or PIK. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, original issue discount and market discount or premium are capitalized, and we accrete or amortize such amounts as interest income. We record prepayment premiums on loans and debt securities as interest income. Dividend income, if any, is recognized on an accrual basis to the extent that we expect to collect such amounts.

### **Expenses**

Our primary operating expenses include the payment of management fees to our Investment Adviser, our allocable portion of overhead under our Administration Agreement and other operating costs as detailed below. Our management fee compensates our Investment Adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments. Additionally, we pay interest expense on the outstanding debt we accrue under our credit facility. We bear all other costs and expenses of our operations and transactions, including:

the cost of calculating our net asset value, including the cost of any third-party valuation services;

the cost of effecting sales and repurchases of shares of our common stock and other securities;

fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments;

expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal and state registration fees and any stock exchange listing fees;

federal, state and local taxes;

independent directors' fees and expenses;

brokerage commissions;

fidelity bond, directors and officers/errors and omissions liability insurance and other insurance premiums;

direct costs such as printing, mailing, long distance telephone and staff;



fees and expenses associated with independent audits and outside legal costs;

costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws;  
and

all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon 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.

Although the base management fee is 2.00% of average adjusted gross total assets, the Investment Adviser agreed to waive a portion of the base management fee. As a result, the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007 and 1.75% from October 1, 2007 through March 31, 2008. The base management fee has been 2.00% since March 31, 2008.

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We expect our general and administrative operating expenses related to our ongoing operations to remain relatively stable or decline slightly as a percentage of our assets in future periods. Incentive fees, interest expense and costs relating to future offerings of securities would be additive.

The SEC requires that Total Annual Expenses be calculated as a percentage of net assets in the chart on page 7 of this prospectus rather than as a percentage of total assets. Total assets includes assets that have been funded with borrowed monies (leverage). For reference, the chart below illustrates our Total Annual Expenses as a percentage of total assets:

<b>Estimated Annual Expenses (as a Percentage of Total Assets)</b>	
Base management fees	2.00% <sup>(1)</sup>
Incentive fees payable under the Investment Management Agreement	1.39% <sup>(2)</sup>
Interest payments on borrowed funds	1.27% <sup>(3)</sup>
Other expenses	1.02% <sup>(4)</sup>
<b>Total Annual Expenses</b>	<b>5.68%</b>

- (1) 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.
- (2) The portion of incentive fees paid in respect of net investment income is based on actual amounts incurred during the nine months ended June 30, 2009, annualized for a full year. Such incentive fees are based on performance, vary from year to year 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 advisory and 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. 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 nine months ended June 30, 2009. 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 in this prospectus.
- (3) As of June 30, 2009, we had \$112.7 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$187.3 million in borrowings outstanding under our \$300.0 million credit facility. We intend to use proceeds of an offering of securities under this registration statement primarily to repay outstanding obligations under our credit facility. After completing any such offering, we intend to continue to borrow under our credit facility to finance portfolio investments and are permitted to do so under the terms of our credit facility. We have estimated the interest payments on borrowed funds to take this into account. We caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing and may be substantially higher than the estimate provided in this table. For more information, see Risk Factors We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.
- (4) Other Expenses includes, among other expenses, 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 nine months ended June 30, 2009 annualized for a full year. See our Consolidated Statement of Operations in our financial statements.

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### **Critical Accounting Policies**

The discussion of our financial condition and results of operation is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our critical accounting policies in the notes to our financial statements.

### ***Valuation of Portfolio Investments***

As a business development company, we generally invest in illiquid securities including debt and equity investments of middle-market companies. All of our investments are recorded using broker/dealers quotes or at fair value as determined in good faith by our board of directors. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from an independent pricing service or at the bid prices, if available, obtained from at least two broker/dealers or by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Debt and equity investments that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by or under the direction of our board of directors. Such determination of fair values involves subjective judgments and estimates. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent third party valuation firms, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs in connection with one of our portfolio companies, our board uses the pricing indicated by the external event to corroborate and/or assist us in our valuation of our investment in such portfolio company. Because there are not always readily available markets for most of the investments in our portfolio, we value certain of our portfolio investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

With respect to investments for which market quotations are not readily available or are readily available but believed not to reflect the fair value of an investment, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- 1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;
- 2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- 3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of an investment. The independent valuation firm reviews management's preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

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4) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and that of the independent valuation firms and responds and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and

5) The board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the independent valuation firms and the audit committee.

In September 2006, the Financial Accounting Standards Board issued SFAS 157, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We adopted this statement on October 1, 2008. This adoption did not affect our financial position or its results of operations.

SFAS No. 157 classifies the inputs used to measure these fair values into following hierarchy:

*Level 1:* Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.

*Level 2:* Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.

*Level 3:* Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. All of our investments (other than cash and cash equivalents) and long-term credit facility are classified as Level 3.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 115*. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We adopted SFAS 159 on October 1, 2008 and have made an irrevocable election to apply the fair value option to our credit facility liability. The fair value option was elected for our credit facility to align the measurement attributes of both the assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Upon our adoption our net asset value increased by \$41.8 million, or \$1.99 per share, due to the fair value adjustment related to our credit facility. We have used a nationally recognized independent valuation service to measure the fair value of our credit facility in a manner consistent with the valuation process that our board of directors uses to value our investments. After adoption, subsequent changes in the fair value of our credit facility will be recorded in the statement of operations. We have not elected to apply SFAS 159 to any other financial assets or liabilities. For the three

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months and nine months ended June 30, 2009, approximately \$9.2 million was recorded as a change in unrealized appreciation and \$11.4 million was recorded as a change in unrealized depreciation on the credit facility in the statement of operations, respectively.

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP No. 157-4 ). FSP No. 157-4 made amendments to SFAS No. 157 to provide additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. It emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique used, the objective of a fair value measurement remains the same that the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The guidance in FSP No. 157-4 is effective for periods ending after June 15, 2009; we adopted FSP No. 157-4 on June 30, 2009. The adoption of FSP No. 157-4 did not have a material impact on our consolidated financial statements.

Our investments are generally structured as debt and equity investments in the form of mezzanine debt, senior secured loans and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors. These nonpublic investments are included in Level 3 of the fair value hierarchy.

### ***Revenue Recognition***

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt securities with contractual PIK interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt securities if we determine that it is probable that we will not be able to collect such interest. Loan origination fees, original issue discount and market discount or premium are capitalized, and we then amortize such amounts as interest income throughout the life of the loan. We record prepayment premiums on loans and debt securities as interest income. We recognize dividend income, if any, on an accrual basis to the extent that we expect to collect such amounts.

### ***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation***

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

### ***Payment in Kind Interest***

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. For us to maintain our status as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends, even though we have not collected any cash with respect to PIK securities.

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**Table of Contents*****Federal Income Taxes***

We operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and intend to continue to do so. Accordingly, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income as defined by the Code.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

**Portfolio and Investment Activity**

As of June 30, 2009, our portfolio totaled \$393.1 million and consisted of \$98.8 million of senior secured loans, \$111.2 million of second lien secured debt, \$156.0 million of subordinated debt, \$10.3 million of preferred equity and \$16.8 million of common equity investments. Our core assets totaled \$346.3 million and consisted of investments in twenty-five different companies with an average investment size of \$13.9 million per company and a weighted average yield of 11.6% on debt investments. Our non-core senior secured loan portfolio totaled \$46.8 million and consisted of thirteen different companies (including one company also in our core portfolio) with an average investment size of \$3.6 million and a weighted average yield of 3.3% on debt investments. Of our debt portfolio, 51% were invested in fixed-rate investments (or contained a LIBOR floor) and 49% in variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$59.7 million as of June 30, 2009. Our overall portfolio consisted of thirty-seven companies with an average investment size of \$10.6 million and a weighted average yield on debt investments of 10.4%, and was invested 25% in senior secured loans, 28% in second lien secured debt, 40% in subordinated debt, 3% in preferred equity and 4% in common equity investments.

As of September 30, 2008, our portfolio totaled \$372.1 million and consisted of \$78.8 million of senior secured loans, \$104.2 million of second lien secured debt, \$166.2 million of subordinated debt, \$9.3 million of preferred equity and \$13.6 million of common equity investments. Our core assets totaled \$305.5 million and consisted of investments in nineteen different companies with an average investment size of \$16.1 million per company and a weighted average yield of 12.5% on debt investments. Our non-core senior secured loan portfolio totaled \$66.6 million and consisted of nineteen different companies (including one company also in our core portfolio) with an average investment size of \$3.5 million and a weighted average yield of 5.2% on debt investments. Of our debt portfolio, 45% were invested in fixed-rate investments and 55% in variable-rate investments. Overall, our portfolio had an unrealized depreciation of \$72.0 million as of September 30, 2008. Our overall portfolio consisted of thirty-seven companies with an average investment size of \$10.1 million and a weighted average yield on debt investments of 11.1%, and was invested 21% in senior secured loans, 28% in second lien secured debt, 45% in subordinated debt, 2% in preferred equity and 4% in common equity investments.

As of September 30, 2007 our portfolio totaled \$291.0 million and consisted of \$57.3 million of subordinated debt, \$67.8 million of second lien secured debt, \$7.0 million of equity investments and \$158.9 million of senior secured loans. On September 30, 2007, our core assets totaled \$132.1 million and consisted of investments in eight different companies with an average investment size of \$16.5 million per company and a weighted average yield of 13.0%. Our senior secured loan portfolio at September 30, 2007 totaled \$158.9 million and consisted of 30 different companies with an average investment size of \$5.3 million, and a weighted average yield of 7.5%. The overall portfolio had unrealized depreciation of \$23.9 million due to recent erosion in the market prices of leveraged finance instruments. On September 30, 2007 our portfolio consisted of 38 companies and was invested 20% in subordinated debt, 23% in second lien secured debt, 2% in equity investments and 55% in senior secured loans.

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### **Results of operations**

Set forth below are our results of operations for the nine months ended June 30, 2009 and 2008; and for the year ended September 30, 2008 and for the period January 11, 2007 (inception) to September 2007.

#### ***Investment Income***

Total investment income for the nine months ended June 30, 2009, was \$33.3 million of which \$13.6 million was attributable to senior secured loan investments, \$10.6 million was attributable to second lien secured debt investments, and \$7.4 million was attributable to subordinated debt investments. The remaining investment income was primarily attributable to interest income from short-term investments and to net accretion of discount and amortization of premium. The increase in investment income compared with the same period in the prior year is due to the growth of our portfolio, the transition of the portfolio from temporary to long-term core investments, offset by lower interest rates.

Investment income for the nine months ended June 30, 2008 was \$28.4 million. Investment income for the nine months ended June 30, 2008 was primarily attributed to \$11.6 million of interest income from senior secured loan investments; \$10.5 million from our second lien secured debt investments; and \$5.1 million from our subordinated debt investments. The remaining investment income was primarily attributed to interest income from short-term investments and to accretion of discount and amortization of premium.

Investment income for the fiscal year ended September 30, 2008 was \$39.8 million. Interest income from senior secured loan investments totaled \$16.2 million; \$14.7 million from second lien secured debt investments; and \$7.2 million from subordinated debt investments for the same period. The remaining investment income was primarily attributable to interest income from short-term investments and to net accretion of discount and amortization of premium. The increase in investment income from fiscal year 2007 to 2008 was due to the growth of our portfolio and the transition of the portfolio from temporary to long-term investments.

Investment income totaled \$13.1 million for the period January 11, 2007 (inception) through September 30, 2007. The investment income was generated primarily from senior secured loan investments which had stated interest rates between 6.9% and 8.7%, and a weighted average yield of 7.5%. Our second lien secured debt investments had stated interest rates between 11.1% and 13.3% and weighted average yield of 12.9%. Our subordinated debt investments had stated interest rates between 11.7% and 14.3% and weighted average yield of 13.1%. Our total portfolio had a weighted average yield on debt investments of 10.1%.

#### ***Expenses***

Net expenses for the nine months ended June 30, 2009 totaled \$16.6 million, which consisted of a base management fee which totaled \$5.5 million, performance-based incentive fees which totaled \$4.2 million, credit facility related expenses which totaled \$3.8 million and general and administrative expenses, which totaled \$3.1 million.

Net expenses for the nine months ended June 30, 2008 totaled \$15.2 million. Of these totals, \$4.4 million were attributable to credit facility related expenses and \$3.6 million to general and administrative expenses, respectively. Net base management fee for the same period totaled \$4.8 million and performance-based incentive fee totaled \$2.4 million, respectively.

Net expenses for the fiscal year ended September 30, 2008 totaled \$21.2 million. Net base management fee for the same period totaled \$6.7 million, performance-based incentive fee totaled \$3.8 million, credit facility related expense totaled \$6.3 million and general and administrative expenses totaled \$4.4 million. The increase in expenses from fiscal year 2007 to 2008 was due, primarily, to the growth of our portfolio and the incurrence of additional borrowing costs under our credit facility.

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Net expenses totaled \$5.8 million for the period January 11, 2007 (inception) through September 30, 2007. Of these totals, approximately \$1.8 million were for interest and other credit facility related expenses for the period January 11, 2007 (inception) through September 30, 2007. In addition, of these totals, approximately \$313,000 was for non-recurring, primarily, legal and corporate tax expenses for the period January 11, 2007 (inception) through September 30, 2007. General and Administrative expenses totaled \$1.7 million for the period January 11, 2007 (inception) through September 30, 2007. Net investment management fee totaled \$1.9 million for the period January 11, 2007 (inception) through September 30, 2007. PennantPark Investment Advisers did not receive a management or incentive fee for its services performed on our behalf prior to the completion of our initial public offering on April 24, 2007.

### ***Net Investment Income***

Net investment income totaled \$16.7 million or \$0.79 per share for the nine months ended June 30, 2009. Net investment income totaled \$13.1 million or \$0.62 per share for the nine months ended June 30, 2008.

Net investment income totaled \$18.6 million or \$0.88 per share, for the fiscal year ended September 30, 2008, and \$7.3 million or \$0.35 per share for the period from January 11, 2007 (inception) through September 30, 2007.

### ***Net Realized Loss***

Sales and repayments of long-term investments for the nine months ended June 30, 2009 totaled \$12.9 million and realized losses totaled \$30.8 million.

Sales and repayments of long-term investments for the nine months ended June 30, 2008 totaled \$14.4 million and net realized losses totaled approximately \$621,000, respectively.

Sales and repayments of long-term investments for the fiscal year ended September 30, 2008 totaled \$70.1 million and net realized losses totaled \$11.2 million due to sale of senior secured loans.

We had investment sales of senior secured loans totaling \$99.6 million for the period January 11, 2007 (inception) through September 30, 2007. Net realized losses totaled approximately \$82,000 for the period January 11, 2007 (inception) through September 30, 2007.

### ***Net Unrealized Appreciation/Depreciation on Investments, Cash Equivalents and Credit Facility***

For the nine months ended June 30, 2009, our investments had a net change in unrealized appreciation of \$12.3 million. For the nine months ended June 30, 2009, our credit facility had a net change in unrealized depreciation of \$11.4 million.

Investments and cash equivalents had a net (decrease) in unrealized appreciation of (\$42.2) million for the nine months ended June 30, 2008.

Net unrealized depreciation on investments totaled \$48.1 million for the fiscal year ended September 30, 2008.

Net unrealized depreciation on investments totaled \$23.9 million for the period January 11, 2007 (inception) through September 30, 2007.

### ***Net Increase/Decrease in Net Assets from Operations***

For the nine months ended June 30, 2009 there was a net increase of \$9.6 million or \$0.45 per share, respectively, primarily due to an increase in investment values offset by a net decline in market value of our credit facility over the past nine months.



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Net (decrease) in net assets resulting from operations totaled (\$29.7) million or (\$1.40) per share, for the nine months ended June 30, 2008, respectively.

Net decrease in net assets resulting from operations totaled \$40.7 million, or \$1.93 per share, for the fiscal year ended September 30, 2008, primarily due to the overall decline in market values for investments held in our portfolio.

Our net decrease in net assets resulting from operations totaled \$16.7 million for the period January 11, 2007 (inception) through September 30, 2007 or \$0.80 cents per share.

## **Liquidity and Capital Resources**

On June 25, 2007, we entered into a senior secured revolving credit agreement (our credit facility) among us, various lenders and SunTrust Bank, as administrative agent for the lenders. SunTrust Robinson Humphrey Capital Markets acted as the joint lead arranger and book-runner, and JPMorgan Chase (Chase Lincoln First Commercial successor interest of Bear Stearns Corporate Lending Inc.) acted as joint lead arranger and syndication agent. As of June 30, 2009, we had outstanding borrowings of \$187.3 million under our credit facility with an annual interest rate of 1.31%.

Under our credit facility, the lenders agreed to extend us credit in an initial aggregate principal or face amount not exceeding \$300.0 million at any one time outstanding. Our credit facility is a five-year revolving facility (with a stated maturity date of June 25, 2012) and is secured by substantially all of our investment portfolio assets. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR.

The Credit Agreement contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintenance of a minimum shareholders' equity of the greater of (i) 40% of the total assets of PennantPark Investment and its subsidiaries as at the last day of any fiscal quarter and (ii) the sum of (A) \$120,000,000 plus (B) 25% of the net proceeds from the sale of equity interests in PennantPark Investment and its subsidiaries after the closing date of the credit facility, (c) maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness, in each case of PennantPark Investment, of not less than 2.0:1.0, (d) maintenance of minimum liquidity standards, (e) limitations on the incurrence of additional indebtedness, (f) limitations on liens, (g) limitations on fundamental corporate changes, (h) limitations on investments (other than PennantPark Investment's portfolio investments and certain other ordinary course investments), (i) limitations on payments and distributions (other than distributions to PennantPark Investment's shareholders as contemplated to maintain RIC status), (j) limitations on transactions with affiliates, (k) limitations on engaging in business not contemplated by PennantPark Investment's investment objectives, and (l) limitations on the creation or existence of agreements that prohibit liens on properties of PennantPark Investment and its subsidiaries. In addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under our credit facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in PennantPark Investment's portfolio.

PennantPark Investment's liquidity and capital resources are also generated and available from cash flows from operations, including investment sales and repayments of senior and subordinated loans, and net investment income.

On June 30, 2009, PennantPark Investment had \$187.3 million borrowings under our senior secured revolving credit facility, and \$112.7 million remained available subject to maintenance of at least a 200% ratio of our total assets less liabilities other than indebtedness to our indebtedness, maintenance of a blended percentage of the values of our portfolio companies, and restrictions on certain payments and issuance of debt. In the future, PennantPark Investment may raise additional equity or debt capital through a registered offering off a shelf registration or may securitize a portion of its investments among other considerations. Equity capital may be

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difficult to raise because, subject to some limited exceptions, we are not generally able to issue and sell our common stock at a price below net asset value per share, unless we obtain shareholder approval. In addition, debt capital, to the extent it is available under stressed credit market conditions, may be issued at a higher cost and on less favorable terms and conditions. Furthermore, if the valuations of our portfolio companies continue to fall significantly from their present values, we may suffer reduced availability under our credit facility because such availability depends on (i) our asset coverage, which generally requires that the valuation of our total assets less liabilities other than indebtedness be at least equal to 200% of our indebtedness, (ii) our maintenance of a blended percentage of the values of our portfolio companies, and (iii) restrictions on certain payments and issuance of debt. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our shareholders or for other general corporate purposes.

Subsequent to June 30, 2009 and through the date of this report, economic conditions in the United States have continued to be weak. As a result our net asset value may decline. Our continued compliance with the covenants under our credit facility depends on many factors, some of which are beyond our control. Material net asset devaluation could have a material adverse effect on our operations and could require us to reduce our borrowings under our credit facility in order to comply with certain of the covenants we made when we entered into the credit facility, including the ratio of total assets to total indebtedness.

On June 30, 2009, we had \$0.5 million in cash equivalents. During the nine months ended June 30, 2009, we generated operating cash flows primarily from interest earned on debt investments, and our primary use of funds for operations during the same period consisted of investments in portfolio companies, payments of fees and other operating expenses we incurred. Our operating activities resulted in a net cash outflow of \$9.8 million for the nine months ended June 30, 2009. Our financing activities resulted in a net cash outflow of cash of \$29.9 million for the same periods, primarily from repayments under our credit facility.

On September 30, 2008, we had \$40.2 million in cash equivalents. During the twelve months ended September 30, 2008, we generated operating cash flows primarily from interest earned on debt investments, and our primary use of funds for operations during the same period consisted of investments in portfolio companies, payments of fees and other operating expenses we incurred. Our operating activities resulted in a net use of cash of \$390.7 million for the fiscal year ended September 30, 2008, and our financing activities resulted in a net inflow of cash of \$173.0 million for the same period, primarily from borrowings under our credit facility.

On September 30, 2007, we had \$258.0 million in cash equivalents. Our operating activities resulted in a net outflow of cash equal to \$37.9 million for the period from January 11, 2007 (inception) through September 30, 2007 and our financing activities resulted in a net inflow of cash of \$295.8 million for the same period, primarily from the issuance of our common stock.

**Contractual Obligations**

As of June 30, 2009 a summary of our significant contractual payment obligations for the repayment of outstanding borrowing under our credit facility maturing as follows:

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior secured revolving credit facility <sup>(1)</sup>	\$ 187.3		187.3		

- (1) On June 30, 2009, \$112.7 million unused under our credit facility, subject to maintenance of the applicable total assets to debt ratio of 200%.

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We have entered into certain contracts under which we have material future commitments. On April 17, 2007 we entered an Investment Management Agreement which was renewed in February 2009 with PennantPark Investment Advisers in accordance with the 1940 Act, effective as of the completion of our initial public offering. PennantPark Investment Advisers now serves as our investment adviser in accordance with the terms of our Investment Management Agreement. Payments under our Investment Management Agreement in each reporting period is equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance. See Certain Relationships and Transactions Investment Management Agreement and Note 3 to our financial statements for more information.

Under our Administration Agreement dated April 17, 2007, which was renewed in February, 2009, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide managerial assistance to our portfolio companies, PennantPark Investment Administration will be paid an additional amount based on the services provided, which amount will not in any case exceed the amount we receive from the portfolio companies for such services. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief compliance officer, chief financial officer and their respective staff. See Certain Relationships and Transactions Administration Agreement and note 3 to our financial statements for more information.

If any of our contractual obligations discussed above is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new Investment Management Agreement would also be subject to approval by our stockholders.

## **Off-Balance Sheet Arrangements**

We engage in no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

## **Recent Developments**

On August 25, 2009, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending August 25, 2010. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock; however, we do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We will describe the risks and dilutive effects of any offering that we make at a price below our then current net asset value in a prospectus supplement issued in connection with any such offering.

## **Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board issued SFAS 157, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted this statement on October 1, 2008. This adoption did not affect our financial position or its results of operations.

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In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 115* ( SFAS 159 ). This statement permits an entity to elect to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted SFAS 159 on October 1, 2008 and have made an irrevocable election to apply the fair value option to our credit facility liability. The fair value option was elected for our credit facility to align the measurement attributes of both the assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Upon our adoption of SFAS 159, our net asset value increased by \$41.8 million, or \$1.99 per share, due to the fair value adjustment related to our credit facility. We have used a nationally recognized independent valuation service to measure the fair value of our credit facility in a manner consistent with the valuation process that our board of directors uses to value our investments. After adoption, subsequent changes in the fair value of our credit facility will be recorded in our statement of operations. We have not elected to apply SFAS 159 to any other financial assets or liabilities.

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP 157-4 ), which provides further clarification for the application of SFAS 157 in markets that are not active. Previously issued FASB Staff Position No. 157-3, *Determining Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, has been superseded by FSP157-4. FSP 157-4 provides additional guidance for determining when the volume and trading level of activity for an asset or liability has significantly decreased and for identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. We adopted the provisions of FSP 157-4 for the quarter ending June 30, 2009 and the adoption of the provisions of FSP 157-4 did not have a material effect on our financial statements.

## **Distributions**

In order to qualify as a RIC and to avoid corporate level tax on income, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, we must distribute at least 98% of our income (both ordinary income and net capital gains) to avoid an excise tax.

During the nine months ended June 30, 2009 and June 30, 2008 we paid to stockholders distributions of \$0.72 and \$0.66 per share, respectively, for a total distribution of \$15.2 million and \$13.9 million, respectively. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders. Tax characteristics of all distributions will be reported to stockholders on Form 1099 after the end of the calendar year.

During each of the nine months ended June 30, 2009 and June 30, 2008, \$1.2 million in dividend payments were reinvested in our common stock through open market purchases under our dividend reinvestment plan.

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We intend to continue to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors. Our dividends declared since our inception have been as follows:

	<b>Dividend Declared</b>
<b>Fiscal year ending September 30, 2009</b>	
Fourth quarter	\$ 0.24
Third quarter	\$ 0.24
Second quarter	\$ 0.24
First quarter	\$ 0.24
<b>Total</b>	<b>\$ 0.96</b>
<b>Fiscal year ended September 30, 2008</b>	
Fourth quarter	\$ 0.24
Third quarter	\$ 0.22
Second quarter	\$ 0.22
First quarter	\$ 0.22
<b>Total</b>	<b>\$ 0.90</b>
<b>Fiscal year ended September 30, 2007</b>	
Fourth quarter	\$ 0.22
Third quarter	\$ 0.14
<b>Total</b>	<b>\$ 0.36*</b>

\* \$0.00107 per share is a tax return of capital

We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends.

On January 7, 2009, the Internal Revenue Service issued a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared with respect to a taxable year ending on or before December 31, 2009 and (3) each shareholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all shareholders, which must be at least 10% of the aggregate declared distribution. If too many shareholders elect to receive cash, each shareholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any shareholder electing to receive cash receive less than 10% of his or her entire distribution in cash.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a business development company under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of RIC status. We cannot assure stockholders that they will receive any dividends and distributions at a particular level.

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**Quantitative and qualitative disclosure about market risk**

We are subject to financial market risks, including changes in interest rates. During the period covered by this report, many of the loans in our portfolio had floating interest rates. These loans are usually based on a floating LIBOR rate and typically have durations of three months after which they reset to current market interest rates.

Assuming that the balance sheet as of June 30, 2009 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates may affect net income by more than 1% over a one-year horizon. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. In periods of declining interest rates, our cost of funds would decrease, which may reduce our net investment income. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in benefits of lower interest rates with respect to our portfolio of investments with fixed interest rates.

**Table of Contents****SENIOR SECURITIES**

Information about our senior securities is shown in the following table as of September 30, 2007, September 30, 2008 and June 30, 2009. The information for September 30, 2007 and September 30, 2008 has been derived from our financial statements which have been audited by KPMG LLP.

<b>Class and Year</b>	<b>Total Amount Outstanding<sup>(1)</sup></b>	<b>Asset Coverage per Unit<sup>(2)</sup></b>	<b>Involuntary Liquidating Preference Per Unit<sup>(3)</sup></b>	<b>Average Market Value Per Unit<sup>(4)</sup></b>
<b>Credit Facility</b>				
Fiscal 2009 (as of June 30, 2009, unaudited)	\$ 187,300	\$ 2,034	N/A	N/A
Fiscal 2008 (as of September 30, 2008)	\$ 202,000	\$ 2,043	N/A	N/A
Fiscal 2007 (as of September 30, 2007)	\$ 10,000	\$ 28,039	N/A	N/A

- (1) Total cost of each class of senior securities outstanding at the end of the period presented (in 000 s).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by cost of senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, as senior securities are not registered for public trading.

**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market. On August 31, 2009, the last reported closing price of our common stock was \$8.35 per share.

Period	NAV <sup>(1)</sup>	Closing Sales Price		High Sales Price to NAV <sup>(2)</sup>	Low Sales Price to NAV <sup>(2)</sup>	Declared Dividends
		High	Low			
<b>Fiscal year ending September 30, 2009</b>						
Fourth quarter (through August 31, 2009)	\$ N/A	\$ 8.99	\$ 6.28	N/A%	N/A%	\$ 0.24
Third quarter	11.72	7.65	3.85	65	33	0.24
Second quarter	12.00	4.05	2.64	34	22	0.24
First quarter	10.24	7.81	2.35	76	23	0.24
<b>Fiscal year ended September 30, 2008</b>						
Fourth quarter	10.00	8.50	5.92	85	59	0.24
Third quarter	10.77	8.60	7.05	80	65	0.22
Second quarter	10.26	11.31	8.38	110	82	0.22
First quarter	12.07	14.49	9.08	120	75	0.22
<b>Fiscal year ended September 30, 2007</b>						
Fourth quarter	12.83	14.76	12.61	115	98	0.22
Third quarter*	13.74	15.03	14.04	109	102	0.14

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

\* From April 24, 2007 (initial public offering) to June 30, 2007.



**Table of Contents****DISTRIBUTIONS**

We intend to make distributions on a quarterly basis to our stockholders. The amount and general timing of our quarterly distributions, if any, will be determined by our board of directors. We intend to distribute to our stockholders substantially all of our income. We may elect to make deemed distributions to our stockholders of certain net capital gains. If this happens, you will be treated as if you received an actual distribution of the capital gains we retain and reinvested the after-tax net proceeds in us. You also may be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See Material U.S. Federal Income Tax Considerations. With respect to the dividends paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to stockholders. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders.

The following table summarizes our dividends declared since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market:

	<b>Dividend Declared</b>
<b>Fiscal year ending September 30, 2009</b>	
Fourth quarter	\$ 0.24
Third quarter	\$ 0.24
Second quarter	\$ 0.24
First quarter	\$ 0.24
<b>Total</b>	<b>\$ 0.96</b>
<b>Fiscal year ended September 30, 2008</b>	
Fourth quarter	\$ 0.24
Third quarter	\$ 0.22
Second quarter	\$ 0.22
First quarter	\$ 0.22
<b>Total</b>	<b>\$ 0.90</b>
<b>Fiscal year ended September 30, 2007</b>	
Fourth quarter	\$ 0.22
Third quarter	\$ 0.14
<b>Total</b>	<b>\$ 0.36*</b>

\*\$0.00107 per share is a tax return of capital

We intend to continue to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors.

We have elected to be taxed as a RIC under Subchapter M of the Internal Revenue Code of 1986. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31st and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we currently intend to distribute realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we



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may in the future decide to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under Material U.S. Federal Income Tax Considerations.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. See Dividend Reinvestment Plan.

On January 7, 2009, the Internal Revenue Service issued a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared with respect to a taxable year ending on or before December 31, 2009 and (3) each shareholder may elect to receive his or her entire distribution in either cash or stock of the RIC, subject to a limitation on the aggregate amount of cash to be distributed to all shareholders, which must be at least 10% of the aggregate declared distribution. If too many shareholders elect to receive cash, each shareholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any shareholder electing to receive cash receive less than 10% of his or her entire distribution in cash.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a business development company under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our RIC status. We cannot assure stockholders that they will receive any dividends and distributions or dividends and distributions at a particular level.

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**BUSINESS**

**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 under the 1940 Act.

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.

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 generally 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.

The level of our investment activity in our core assets 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 will continue to use, the proceeds of our public offerings of securities and of our credit facility in accordance with our investment objectives.

**Operating 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 and our Investment Adviser. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross total assets as well as an incentive fee based on our investment performance. See "Certain Relationships and Transactions" Investment Management Agreement.

We have also entered into an 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. See "Certain Relationships and Transactions" Administration Agreement.

If any of our contractual obligations discussed above is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new Investment Management Agreement would also be subject to approval by our stockholders.

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### **Our Investment Adviser and Administrator**

We utilize the investing experience and contacts of Arthur H. Penn, the founder of PennantPark Investment Corporation and PennantPark Investment Advisers, as well as the other investment professionals of the Investment adviser. 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, which is the investment adviser of Apollo Investment Corporation, 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 its President and Chief Operating Officer from February 2006 through November 30, 2006.

During the period in which Mr. Penn was the Chief Operating Officer, Apollo Investment Corporation 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, provided for borrowings up to \$2.0 billion. During Mr. Penn's tenure with Apollo Investment Corporation, it invested approximately \$2.8 billion in 73 companies in partnership with 54 different financial sponsors.

During Mr. Penn's career in the financial services industry, he also served as Managing Partner of Apollo Value Fund L.P. (formerly Apollo Distressed Investment Fund, L.P.) from 2003 through November 2006. Mr. Penn previously served as Global Head of Leveraged Finance at UBS Warburg LLC (now UBS Securities LLC) from 1999 through 2001. Prior to joining UBS Warburg, Mr. Penn was Global Head of Fixed Income Capital markets for BT Securities and BT Alex Brown Incorporated from 1994 to 1999. In these capacities, Mr. Penn oversaw groups responsible for more than 200 high-yield and leveraged bank financings aggregating over \$34 billion in capital raised. From 1992 to 1994, Mr. Penn served as Head of High Yield Capital Markets at Lehman Brothers.

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 provide us with access to substantial investment opportunities.

Our Investment Adviser has three experienced investment professionals, in addition to Mr. Penn, who are also partners. These professionals, Geoffrey Chang, Salvatore Giannetti III and Whit Williams, have a combined 48 years of experience in the mezzanine, private equity and leveraged finance businesses. Mr. Chang was previously a founding member and Principal of Audax Mezzanine from 2000 through 2007 and, prior to that was a Director in the Leveraged Finance Group at CIBC World Markets Corp. Mr. Giannetti previously served as Partner in the private equity firm of Wilton Ivy Partners from 2004 through 2007. Prior to joining Wilton Ivy Partners, he was a Managing Director at UBS Warburg LLC in its Leveraged Finance and Financial Sponsors Groups from March 2000 to November 2001. Mr. Williams was an officer at UBS Investment Bank from 1996 to March 2007, most recently as a Managing Director in its Leveraged Finance and Financial Sponsors Group. They are supported by a team of employees, including three investment professionals who have experience in middle-market investing, leveraged finance and capital markets.

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 the Administrator, has extensive experience in finance, operations, and administration of registered investment companies. Guy Talarico, who serves as our Chief Compliance Officer, has over 20 years of regulatory compliance and securities law experience in the financial services industry, having served with various organizations in the areas of equity and fixed-income portfolio management, money market trading and custody.

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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. 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 Risk Factors Risks Related to our Business and Structure.

## **Market Opportunity**

We believe that the size of the middle-market, coupled with the demands of these companies for flexible sources of capital, creates an attractive investment environment for PennantPark Investment.

**We believe middle-market companies have faced increasing difficulty in raising debt through the capital markets.** While many middle-market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult as institutional investors have sought to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield debt securities.

**We believe that the current credit market dislocation improves the risk/reward of our investments.** The downturn in the credit market has resulted in less competition, more conservative capital structures, higher yields and stronger covenants.

**We believe there is a large pool of uninvested private equity capital which is likely to seek to combine their capital with sources of debt capital to complete private investments.** We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with mezzanine loans and/or senior secured loans provided by other sources, and we believe that our capital is well-positioned to partner with such equity investors. We expect such activity to be funded by the substantial amounts of private equity capital that have been raised in recent years.

**We believe that opportunities to invest mezzanine and other debt capital will remain strong.** We expect that the volume of domestic public-to-private transactions as well as the number of companies selecting a sale alternative versus raising capital in the public equity markets as a means of increasing liquidity will remain large. Additionally, the cost and effort associated with being a public company in the United States have become more onerous, causing many management teams to consider alternative liquidity strategies.

## **Competitive Advantages**

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 believe our approach has and will continue to 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



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diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations. See Business-Investment Process-Investment Selection Criteria and Business-Investment Process-Due Diligence.

### ***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 expect that the in-depth coverage and experience of our Investment Adviser, will enable us to invest throughout various stages of the economic cycle and will 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, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available 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



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our Investment Adviser, which enables 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 \$202.0 million (including a \$40.0 million temporary draw) and \$187.3 million of indebtedness outstanding at September 30, 2008 and June 30, 2009, respectively. We believe that our substantial debt capital resources will provide us with the flexibility to take advantage of market opportunities when they arise.

Under our credit facility, the lenders agreed to extend us credit in an initial aggregate principal or face amount not exceeding \$300.0 million at any one time outstanding. The credit facility is a five-year revolving facility (with a stated maturity date of June 25, 2012) and is secured by substantially all of our investment portfolio assets. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR.

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### **INVESTMENT OBJECTIVES AND POLICIES**

#### **Investment Policy Overview**

PennantPark Investment seeks to create a diversified portfolio that includes mezzanine debt, senior secured loans and equity by targeting investment size of \$10 to \$50 million in 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.

Additionally, we may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to the subsidiary. This could include sales of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans. See *Investment Objectives and Policies* Investment selection criteria.

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

#### **Mezzanine Debt**

Structurally, mezzanine debt (which includes second lien secured debt and subordinated debt) usually ranks subordinate in priority of payment to senior secured loans. Our second lien secured debt is subordinated debt that benefits from a collateral interest in the borrower. As such, other creditors may rank senior to us in the event of insolvency. However, mezzanine debt ranks senior to common and preferred equity in a borrower's capital structure. Due to its higher risk profile and often less restrictive covenants as compared to senior secured loans, mezzanine debt generally earns a higher return than senior secured loans. In many cases mezzanine investors receive opportunities to invest directly in the equity investments of borrowers and from time to time may also receive warrants to purchase equity investments. We evaluate these investment opportunities on a case-by-case basis.

#### **Investment selection criteria**

We are committed to a value oriented philosophy used by the investment professionals who manage our portfolio and seek to minimize the risk of capital loss without foregoing potential for capital appreciation.

We have identified several criteria that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions; however, we caution that not all of these criteria will be met by each prospective portfolio company in which we choose to invest.

Generally, we seek to use our experience and access to market information to identify investment candidates and to structure investments quickly and effectively.

#### *Value orientation and positive cash flow*

Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value orientation. We focus on companies in which we can invest at relatively low multiples of operating cash flow and that are profitable at the time of investment on an operating cash flow basis. Typically, we do not expect to invest in start-up companies or companies having speculative business plans.

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### *Experienced management and established financial sponsor relationship*

We generally require that our portfolio companies have an experienced management team. We also require the portfolio companies to have proper incentives in place to induce management to succeed and to act in concert with our interests as investors, including having significant equity interests. In addition, we focus our investments in companies backed by strong financial sponsors that have a history of creating value and with whom members of our Investment Adviser have an established relationship.

### *Strong and defensible competitive market position in industry*

We seek to invest in target companies that have developed leading market positions within their respective markets and are well positioned to capitalize on growth opportunities. We also seek companies that demonstrate significant competitive advantages versus their competitors, which should help to protect their market position and profitability.

### *Viable exit strategy*

We seek to invest in companies that we believe will provide a steady stream of cash flow to repay our loans and reinvest in their respective businesses. We expect that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments in portfolio companies to be a key means by which we exit from our investments over time. In addition, we also seek to invest in companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock or another capital market transaction.

## **Due diligence**

We believe it is critical to conduct extensive due diligence on investment targets and in evaluating new investments. We, through our Investment Adviser, conduct a rigorous due diligence process that is applied to prospective portfolio companies that draws from our Investment Adviser's experience, industry expertise and network of contacts. In conducting due diligence, our Investment Adviser uses publicly available information as well as information from its relationships with former and current management teams, consultants, competitors and investment bankers.

Our due diligence typically includes:

review of historical and prospective financial information;

on-site visits;

interviews with management, employees, customers and vendors of the potential portfolio company;

review of loan documents;

background checks; and

research relating to the company's management, industry, markets, products and services and competitors.

Upon the completion of due diligence and a decision to proceed with an investment in a company, the principals leading the investment present the investment opportunity to our Investment Adviser's investment committee. This committee determines whether to pursue the potential investment. All new investments are required to be reviewed by the investment committee of our Investment Adviser, which currently consists of Messrs. Penn, Chang, Giannetti and Williams, subject to final approval by Mr. Penn. As our Investment Adviser adds senior investment professionals, our Investment Adviser may add them to its investment committee. The members of our investment committee receive no

compensation from us. These members are employees of our Investment Adviser and receive compensation from our Investment Adviser.

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Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent auditors prior to the closing of the investment, as well as other outside advisers, as appropriate.

### **Investment structure**

Once we determine that a prospective portfolio company is suitable for investment, we work with the management of that company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. We negotiate among these parties to agree on how our investment is expected to perform relative to the other capital in the portfolio company's capital structure.

Mezzanine debt typically has interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine debt. In some cases, we may enter into mezzanine debt that, by its terms, converts into equity or additional debt securities or defers payments of interest for the first few years after our investment. Also, in some cases our mezzanine debt may be collateralized by a subordinated lien on some or all of the assets of the borrower. Typically, our mezzanine debt has maturities of three to ten years.

We expect our senior secured loans to have terms of three to ten years. We generally obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of these loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

In the case of our mezzanine debt and senior secured loan investments, we seek to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we seek to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;

- incorporating put rights and call protection into the investment structure; and

- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Our investments may include equity features, such as direct investments in the equity securities of borrowers or warrants or options to buy a minority interest in a portfolio company. Any warrants we may receive with our debt securities generally require only a nominal cost to exercise, so as a portfolio company appreciates in value, we may achieve additional investment return from these equity investments. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we may also obtain registration rights in connection with these equity investments, which may include demand and piggyback registration rights.

We expect to hold most of our investments to maturity or repayment, but may sell certain investments earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company.

### **Ongoing relationships with portfolio companies**

#### *Monitoring*

The Investment Adviser monitors our portfolio companies on an ongoing basis. The Investment Adviser monitors the financial trends of each portfolio company to determine if they are meeting their respective business plans and to assess the appropriate course of action for each company.



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The Investment Adviser has several methods of evaluating and monitoring the performance and fair value of our investments, which may include the following:

Assessment of success in adhering to portfolio company's business plan and compliance with covenants;

Periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;

Comparisons to other PennantPark Investment portfolio companies in the industry, if any;

Attendance at and participation in board meetings; and

Review of monthly and quarterly financial statements and financial projections for portfolio companies.

### **Valuation of Portfolio Investments**

As a business development company, we generally invest in illiquid securities including debt and equity investments of middle-market companies. All of our investments are recorded using broker/dealers quotes or at fair value as determined in good faith by our board of directors. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from an independent pricing service or at the bid prices, if available, obtained from at least two broker/dealers or by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Debt and equity investments that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by or under the direction of our board of directors. Such determination of fair values involves subjective judgments and estimates. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent third party valuation firms, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs in connection with one of our portfolio companies, our board uses the pricing indicated by the external event to corroborate and/or assist us in our valuation of our investment in such portfolio company. Because there are not always readily available markets for most of the investments in our portfolio, we value certain of our portfolio investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

With respect to investments for which market quotations are not readily available or are readily available but believed not to reflect the fair value of an investment, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- 1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;
- 2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;

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- 3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of an investment. The independent valuation firm reviews management's preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;
- 4) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and that of the independent valuation firms and responds and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- 5) The board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the independent valuation firms and the audit committee.

In September 2006, the Financial Accounting Standards Board issued SFAS 157, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We adopted this statement on October 1, 2008. This adoption did not affect our financial position or its results of operations.

SFAS No. 157 classifies the inputs used to measure these fair values into the following hierarchy:

*Level 1:* Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.

*Level 2:* Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.

*Level 3:* Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. All of our investments (other than cash and cash equivalents) and long-term credit facility are classified as Level 3.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 115*. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We adopted SFAS 159 on October 1, 2008 and have made an irrevocable election to apply the fair value option to our credit facility liability. The fair value option was elected for our credit facility to align the measurement attributes of both the assets and liabilities while mitigating



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volatility in earnings from using different measurement attributes. Upon our adoption our net asset value increased by \$41.8 million, or \$1.99 per share, due to the fair value adjustment related to our credit facility. We have used a nationally recognized independent valuation service to measure the fair value of our credit facility in a manner consistent with the valuation process that our board of directors uses to value our investments. After adoption, subsequent changes in the fair value of our credit facility will be recorded in the statement of operations. We have not elected to apply SFAS 159 to any other financial assets or liabilities. For the three months and nine months ended June 30, 2009, approximately \$9.2 million was recorded as a change in unrealized appreciation and \$11.4 million was recorded as a change in unrealized depreciation on the credit facility in the statement of operations, respectively.

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP No. 157-4 ). FSP No. 157-4 made amendments to SFAS No. 157 to provide additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. It emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique used, the objective of a fair value measurement remains the same that the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The guidance in FSP No. 157-4 is effective for periods ending after June 15, 2009; we adopted FSP No. 157-4 on June 30, 2009. The adoption of FSP No. 157-4 did not have a material impact on our consolidated financial statements.

Our investments are generally structured as debt and equity investments in the form of mezzanine debt, senior secured loans and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors. These nonpublic investments are included in Level 3 of the fair value hierarchy.

When we make investments that involve deferrals of interest payable to us, any increase in the value of the investment due to the accrual or receipt of payment of interest is allocated to the increase in the cost basis of the investment, rather than to capital appreciation or gain.

It is possible that future events unforeseen by us or our Investment Adviser, such as a disturbance in the global credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or other general market disturbance, will negatively impact the market for leveraged finance instruments. If the market for our investments is substantially eroded, we may not find purchasers for our portfolio securities at all, or we may be able to sell them only for a fraction of their previously recorded value. During such times, our board of directors, in conjunction with our Investment Adviser and one or more independent valuation firms will continue to determine the fair value of our investments in accordance with our valuation process enumerated above. They will take into account the applicable market conditions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make.

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### **Managerial assistance**

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Our Administrator provides such managerial assistance on our behalf to portfolio companies, if requested. We have not received any fees for such services since inception.

### **Staffing**

We do not currently have any employees. Mr. Penn, our Chief Executive Officer, is the Managing Member of our Investment Adviser. Our Investment Adviser currently has four senior investment professionals, Messrs. Chang, Giannetti, Penn and Williams. In addition, Mr. Efrat, our Chief Financial Officer and Treasurer, is a Managing Director of our Administrator, and Mr. Guy Talarico is our Chief Compliance Officer. Our Administrator and our Investment Adviser have hired and expect to continue to hire professionals with skills applicable to our business plan, including experience in middle-market investing, leveraged finance and capital markets.

### **Our Portfolio**

Our principal investment focus is to provide mezzanine debt and senior secured loans to U.S. middle-market companies in a variety of industries. We generally seek to target companies that generate positive cash flows from the broad variety of industries in which our Investment Adviser has direct expertise. The following is a representative list of the industries in which we have invested:

Aerospace & Defense

Auto Sector

Buildings & Real Estate

Business Services

Cargo Transport

Chemicals, Plastics and Rubber

Consumer Products

Distribution

Education

Energy/Utilities

Environmental Services

Financial Services

Healthcare, Education & Childcare

Home & Office Furnishings, Housewares, & Durable Consumer Products

Insurance

Leisure, Amusement, Motion Pictures, Entertainment

Manufacturing/Basic Industry

Oil & Gas

Other Media

Printing

Retail

Retail Store

Telecommunications

Transportation

We may invest in other industries if we are presented with attractive opportunities.

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Listed below are our top ten portfolio companies and industries represented as a percentage of net assets as of:

<b>Portfolio Company</b>	<b>June 30, 2009</b>
i2 Holdings Ltd.	12%
CT Technologies Intermediate Holdings, Inc.	11%
UP Acquisition Sub Inc.	10%
Brand Energy and Infrastructure Services, Inc.	10%
TZ Merger Sub, Inc.	9%
Specialized Technology Resources, Inc.	9%
IDQ Holdings, Inc.	8%
Affinion Group Holdings, Inc.	8%
Lyondell Chemical Co.	8%
Sheridan Holdings, Inc.	7%

<b>Portfolio Company</b>	<b>September 30, 2008</b>
i2 Holdings Ltd.	13%
UP Acquisitions Sub Inc.	12%
Brand Energy and Infrastructure Services, Inc.	11%
CT Technologies Intermediate Holdings, Inc.	11%
TZ Merger Sub, Inc.	10%
IDQ Holdings, Inc.	9%
Specialized Technology Resources, Inc.	9%
Affinion Group Holdings, Inc.	9%
Performance Holdings, Inc.	8%
TransFirst Holdings, Inc.	7%

<b>Industry</b>	<b>June 30, 2009</b>
Chemicals, Plastics and Rubber	11%
Aerospace & Defense	10%
Business Services	8%
Healthcare, Education & Childcare	7%
Oil & Gas	6%
Consumer Products	6%
Energy/Utilities	6%
Insurance	6%
Auto Sector	5%
Other Media	4%

<b>Industry</b>	<b>September 30, 2008</b>
Other Media	10%
Aerospace & Defense	10%
Business Services	8%
Oil & Gas	7%
Energy/Utilities	6%

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Consumer Products	6%
Healthcare, Education & Childcare	6%
Insurance	6%
Auto Sector	5%
Chemicals, Plastics and Rubber	5%

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of investment company provided in Section 3(c) of the 1940 Act. We may also co-invest in the future on a concurrent basis with affiliates of PennantPark Investment, subject to compliance with applicable regulations and our allocation procedures. Some types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

**Table of Contents****PORTFOLIO COMPANIES**

The following is a listing of each portfolio company or its affiliate, together referred to as portfolio companies, in which we had an investment at June 30, 2009. Percentages shown for class of investment securities held by us represent percentage of the class owned and do not necessarily represent voting ownership or economic ownership. Percentages shown for equity securities, other than warrants or options held, if any, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants or options held, if any, represent the percentage of class of security we may own on a fully diluted basis assuming we exercise our warrants or options. For additional information see Schedule of Investments in our June 30, 2009 financial statements included elsewhere in this prospectus.

The portfolio companies are presented in three categories: companies more than 25% owned which represent portfolio companies where we directly or indirectly own more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the 1940 Act; companies owned 5% to 25% which represent portfolio companies where we directly or indirectly own 5% to 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned which represent portfolio companies where we directly or indirectly own less than 5% of the outstanding voting securities of such portfolio company and where we have no other affiliations with such portfolio company. We make available significant managerial assistance to our portfolio companies. Substantially all of our investments are pledged as collateral under our credit facility. As of June 30, 2009, we held no voting seats on any of our portfolio companies' board of directors.

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Percentage of Class Held <sup>(1)</sup>
<b>Companies More Than 25% Owned</b>			
None			
<b>Companies 5% to 25% Owned</b>			
PERFORMANCE HOLDINGS, INC. / PERFORMANCE INC. ONE PERFORMANCE WAY CHAPEL HILL, NC 27514	LEISURE, AMUSEMENT, MOTION PICTURES, ENTERTAINMENT	Subordinated Debt, Second Lien Secured Debt, Common Equity	6.3%
<b>Companies Less Than 5% Owned</b>			
1-800 CONTACTS, INC. 66 E. WADSWORTH PARK DR., 3RD FL. DRAPER, UT 84020	DISTRIBUTION	First Lien Secured Debt	
AFFINION GROUP HOLDINGS, INC. 100 CONNECTICUT AVENUE NORWALK, CA 06850	CONSUMER PRODUCTS	Subordinated Debt	
BRAND ENERGY & INFRASTRUCTURE SERVICES, INC. 2505 SOUTH MAIN STREET KENNESAW, GA 30144	ENERGY / UTILITIES	First Lien Secured Debt Second Lien Secured Debt	

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Percentage of Class Held<sup>(1)</sup></b>
BURLINGTON COAT FACTORY WAREHOUSE CORP. 1830 Rt. 130 BURLINGTON, NJ 08016	RETAIL STORE	First Lien Secured Debt	
CT TECHNOLOGIES INTERMEDIATE HOLDINGS, INC.  875 NORTH MICHIGAN AVENUE CHICAGO IL 60601	BUSINESS SERVICES	Subordinated Debt	
CONSOLIDATED FOUNDRIES, INC. 4200 VALLEY BLVD. POMONA, CA 91766	AEROSPACE & DEFENSE	Subordinated Debt Preferred Equity Common Equity	0.7%
DIGICEL LTD.  DYOLL BUILDING,  40 KNUTSFORD BOULEVARD,  KINGSTON 5, JAMAICA, W.I.	TELECOMMUNICATIONS	Subordinated Debt	
ENVIROSOLUTIONS, INC.  11220 ASSET LOOP, SUITE 201 MANASSAS, VA 20109	ENVIRONMENTAL SERVICES	First Lien Secured Debt	
GENERIC INTERNATIONAL (U.S.), INC. 130 VINTAGE DRIVE HUNTSVILLE, AL 35811	HEALTHCARE, EDUCATION & CHILDCARE	Second Lien Secured Debt	
GREATWIDE LOGISTIC SERVICES, L.L.C.  12404 PARK CENTRAL DR., STE. 300S DALLAS, TX 75251-1803	CARGO TRANSPORT	Second Lien Secured Debt	
GREATWIDE LOGISTICS SERVICES, INC. 12404 PARK CENTRAL DR. SUITE 3000 SOUTH DALLAS, TX 75251	CARGO TRANSPORT	Second Lien Secured Debt	
HANLEY-WOOD, L.L.C. ONE THOMAS CIRCLE, NW SUITE 600 WASHINGTON, DC 20005	OTHER MEDIA	First Lien Secured Debt	
HUGHES NETWORK SYSTEMS, L.L.C. 11717 EXPLORATION LANE GERMANTOWN, MD 20876	TELECOMMUNICATIONS	First Lien Secured Debt	
INTERDYNAMICS HOLDINGS, INC. 560 WHITE PLAINS ROAD 6 <sup>TH</sup> FLOOR TARRYTOWN, NY 10591	AUTO SECTOR	Subordinated Debt	





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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Percentage of Class Held<sup>(1)</sup></b>
i2 HOLDINGS, LTD. THE VISUAL SPACE CAPITAL PARK FULBOURN CAMBRIDGESHIRE, CB215XH UNITED KINGDOM	AEROSPACE & DEFENSE	Subordinated Debt Preferred Equity Common Equity	3.9%
JACUZZI BRANDS CORP.  777 S. FLAGLER DRIVE  SUITE 1100-WEST  WEST PALM BEACH, FL. 33401	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	First Lien Secured Debt	
LEARNING CARE GROUP (U.S.) 21333 HAGGERTY ROAD SUITE 300 NOVI, MICHIGAN 48375	EDUCATION	Subordinated Debt	
LEVLAD, L.L.C. C/O HARVEST PARTNERS, INC. 280 PARK AVENUE NEW YORK, NY 10017	CONSUMER PRODUCTS	First Lien Secured Debt	
LYONDELL CHEMICAL CO.  LYONDELLBASELL INDUSTRIES 1221 MCKINNEY STREET HOUSTON, TX 77010	CHEMICALS, PLASTICS, & RUBBER	First Lien Secured Debt	
MATTRESS HOLDING CORP.  5815 GULF FREEWAY  HOUSTON, TX 77023	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	First Lien Secured Debt	
MITCHELL INTERNATIONAL, INC. 9889 WILLOW CREEK ROAD SAN DIEGO, CA 92131	BUSINESS SERVICES	First Lien Secured Debt	
NATIONAL BEDDING CO., L.L.C.  5401 TRILLIUM BLVD.  SUITE 250  HOFFMAN ESTATES, IL 60192	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	First Lien Secured Debt	
PENTON MEDIA, INC. 249 W. 17 <sup>TH</sup> STREET FOURTH FLOOR NEW YORK, NY 10011	OTHER MEDIA	First Lien Secured Debt	
PHILOSOPHY, INC. 4602 EAST HAMMOND LANE PHOENIX, AZ 85034	CONSUMER PRODUCTS	First Lien Secured Debt	
QUEBECOR WORLD, INC.	PRINTING	First Lien Secured Debt	

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999 DE MAISONNEUVE BLVD WEST

MONTREAL, QUEBEC  
CANADA H3A 3L4

QUESTEX MEDIA GROUP, INC.  
275 GROVE STREET  
SUITE 2-130  
NEWTON, MA 02466

OTHER MEDIA

First Lien Secured Debt  
Second Lien Secured Debt

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Percentage of Class Held<sup>(1)</sup></b>
REALOGY CORP. ONE CAMPUS DRIVE PARSIPPANY, NJ 07054	BUILDINGS & REAL ESTATE	Subordinated Debt	
REXAIR, L.L.C.  50 WEST BIG BEAVER,  SUITE 350 TROY, MI 48084	RETAIL	First Lien Secured Debt	
REXNORD, L.L.C.  5555 S. WOODLAND ROAD  NEW BERLIN, WI 53151	MANUFACTURING/ BASIC INDUSTRIES	First Lien Secured Debt	
SAINT ACQUISITION CORP. 2200 SOUTH 75 <sup>TH</sup> AVENUE PHOENIX, AZ 85043	TRANSPORTATION	Second Lien Secured Debt	
SHERIDAN HOLDINGS, INC.  1613 N. HARRISON PARKWAY  SUITE 200  SUNRISE, FL 33323	HEALTHCARE, EDUCATION & CHILDCARE	Second Lien Secured Debt	
SITEL, L.L.C. TWO AMERICAN CENTER 3102 WEST END AVENUE SUITE 1000 NASHVILLE, TN 37203	BUSINESS SERVICES	First Lien Secured Debt	
SPECIALIZED TECHNOLOGY RESOURCES, INC. 10 WATER STREET ENFIELD, CT 06082	CHEMICAL, PLASTICS & RUBBER	Second Lien Secured Debt	
TRANSFIRST HOLDINGS, INC. 5950 BERKSHIRE LANE SUITE 1100 DALLAS, TEXAS 75225	BUSINESS SERVICES	Second Lien Secured Debt	
TZ MERGER SUB, INC.  567 SAN NICOLAS DRIVE, SUITE 360  NEWPORT BEACH, CA 92660	INSURANCE	Subordinated Debt  Preferred Equity  Common Equity	1.3%
UP ACQUISITION SUB, INC.  1515 ARAPAHOE STREET  TOWER ONE, SUITE 1500	OIL & GAS	Subordinated Debt  Preferred Equity  Common Equity	1.4%

DENVER, Co. 80202

- (1) Percentage of class held refers only to common equity, preferred equity and warrants held, if any.

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Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets at June 30, 2009.

*UP Acquisition Sub Inc.*

UP Acquisition is a leading independent pipeline engineering services firm in the United States, providing engineering, project management and survey services.

*Trizetto Group Inc.*

Trizetto Group is a leading healthcare information technology, software and consulting services provider.

*i2 Holdings Ltd.*

The company is a leading worldwide provider of visual investigative analysis software for law enforcement, intelligence, military and Fortune 500 organizations.

*CT Technologies Intermediate Holdings, Inc.*

CT Technologies is a leading outsource provider of release of information services to healthcare facilities.

*Brand Energy & Infrastructure Services, Inc.*

This company is a diversified provider of specialty services, including scaffolding, industrial coatings, insulation, refractory, and forming and shoring solutions, to North America's energy markets.

*Specialized Technology Resources, Inc.*

STR is a leader in the consumer testing and inspection market, as well as the leading global provider of solar encapsulants.

*IDQ Holdings, Inc.*

This company is the leading provider of value-added products for the Do-It-Yourself light vehicle air conditioning repair aftermarket.

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The industry composition of the portfolio at fair value on September 30, 2008 and June 30, 2009 was as follows, excluding unearned income:

<b>Industry Classification</b>	<b>June 30, 2009</b>	<b>September 30, 2008</b>
Chemicals, Plastic and Rubber	11%	5%
Aerospace and Defense	10	10
Business Services	8	8
Healthcare, Education and Childcare	7	6
Consumer Products	6	6
Energy/Utilities	6	6
Insurance	6	6
Oil and Gas	6	7
Auto Sector	5	5
Financial Services	4	4
Leisure, Amusement, Motion Picture, Entertainment	4	5
Other Media	4	10
Distribution	3	0
Education	3	3
Environmental Services	3	3
Home and Office Furnishings, Housewares, and Durable Consumer Products	3	4
Transportation	3	2
Buildings and Real Estate	2	3
Retail Store	2	2
Other	4	5
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Table of Contents****MANAGEMENT**

Our business and affairs are managed under the direction of our board of directors. The board of directors currently consists of five members, four of whom are not interested persons of PennantPark Investment as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our board of directors elects our officers, who serve at the discretion of the board of directors.

**Board of Directors**

Under our charter, our directors are divided into three classes. Each class of directors holds office for a three-year term. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Information regarding the board of directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Independent directors</b>				
Adam K. Bernstein	46	Director	2007	2012
Marshall Brozost	42	Director	2007	2011
Jeffrey Flug	46	Director	2007	2012
Samuel L. Katz	44	Director	2007	2011
<b>Interested directors</b>				
Arthur H. Penn	46	Chairman of Board and Chief Executive Officer	2007	2010

The address for each director is 590 Madison Avenue, 15<sup>th</sup> Floor, New York, New York 10022.

**Executive Officers Who are Not Directors**

Information regarding our executive officers who are not directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Aviv Efrat	45	Chief Financial Officer
Guy Talarico	52	Chief Compliance Officer

The address for each executive officer is 590 Madison Avenue, 15<sup>th</sup> Floor, New York, New York 10022, or by telephone at (212) 905-1000.

**Biographical Information**

Our directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the 1940 Act.

***Independent Directors***

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Adam K. Bernstein (46), Director. Mr. Bernstein became a director of PennantPark Investment in February 2007. Mr. Bernstein is currently President of The Bernstein Companies, a Washington, D.C.-based real estate firm which he joined in 1986. Mr. Bernstein also serves as the President and Chief Executive Officer of Consortium Atlantic Realty Trust, Inc., a private real estate investment trust operating in the Mid-Atlantic region since its formation in 2000. Mr. Bernstein is the President of the Mid-Atlantic Regional Advisory Board of the University of Pennsylvania.



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Marshall Brozost (42), Director. Mr. Brozost became a director of PennantPark Investment in February 2007. Since 2007, Mr. Brozost has been Partner at the international law firm of Dewey & LeBoeuf LLP, where he practices in the real estate and private equity groups. Prior to his tenure at Dewey & LeBoeuf LLP which began in 2005, Mr. Brozost practiced law at O Melveny & Myers LLP from 2001 to 2004 and Solomon & Weinberg LLP from 2004 to 2005. Mr. Brozost also served as a vice president of Nomura Asset Capital Corporation from 1997 through 2000.

Jeffrey Flug (46), Director. Mr. Flug became a director of PennantPark Investment in February 2007. Since 2009, Mr. Flug has been the Chief Operating and Financial Officer of Union Square Hospitality Group, an exclusive chain of restaurants. Mr. Flug was Chief Executive Officer and Executive Director of Millennium Promise Alliance, Inc. from 2006 to 2008. Millennium Promise is a non-profit organization whose mission is to eradicate extreme global poverty. Mr. Flug was Managing Director and Head of North American Institutional Sales at JP Morgan s Investment Bank from 2000 to 2006. From 1988 to 2000, Mr. Flug was Managing Director for Goldman Sachs & Co. in its Fixed Income Division.

Samuel L. Katz (43), Director. Mr. Katz became a director of PennantPark Investment in February 2007. Since 2007, Mr. Katz is the Managing Partner of TZP Group LLC, a private equity fund. He served as Chief Executive Officer of MacAndrews & Forbes Acquisition Holdings, Inc. from 2006 to 2007. From 1996 to 2006, Mr. Katz held a variety of senior positions at Cendant Corporation including, most recently, Chairman and Chief Executive Officer of the Cendant Travel Distribution Services Division from 2001 to 2005. Mr. Katz was also Co-Chairman of Cendant s Marketing Services Division as well as Chief Strategic Officer.

***Interested Director***

Arthur H. Penn (46) Founder, Chief Executive Officer and Chairman of the Board of Directors. Mr. Penn became the chief executive officer and a director of PennantPark Investment at its inception in January 2007. He also founded and became Managing Member of PennantPark Investment Advisers in January 2007. Mr. Penn co-founded Apollo Investment Management in 2004, where he was a Managing Partner from 2004 to 2006. He also served as Chief Operating Officer of Apollo Investment Corporation from its inception in 2004 to 2006 and served as President and Chief Operating Officer of that company in 2006. Mr. Penn was formerly a Managing Partner of Apollo Value Fund L.P. (formerly Apollo Distressed Investment Fund, L.P.) from 2003 to 2006. From 2002 to 2003, prior to joining Apollo, Mr. Penn was a Managing Director of CDC-IXIS Capital Markets. Mr. Penn previously served as Global Head of Leveraged Finance at UBS Warburg LLC (now UBS Investment Bank) from 1999 through 2001. Prior to joining UBS Warburg, Mr. Penn was Global Head of Fixed Income Capital markets for BT Securities and BT Alex. Brown Incorporated from 1994 to 1999. From 1992 to 1994, Mr. Penn served as Head of High-Yield Capital Markets at Lehman Brothers.

***Executive Officers who are not Directors***

Aviv Efrat (45), Chief Financial Officer and Treasurer. Mr. Efrat joined PennantPark Investment in February 2007 as its Chief Financial Officer and Treasurer. Mr. Efrat is also a Managing Director of PennantPark Investment Administration, LLC. Mr. Efrat was a Director at BlackRock, Inc., where he was responsible for a variety of administrative, operational, and financial aspects of closed-end and open-end registered investment companies from 1997 to 2007. From 1994 to 1997, Mr. Efrat was in the Investment Companies Business Unit at Deloitte & Touche LLP. He is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. Mr. Efrat earned his B.S. in Economics from Brigham Young University in 1991 and an M.B.A. from New York University in 1999.

Guy Talarico (52) Chief Compliance Officer. Mr. Talarico became PennantPark Investment s Chief Compliance Officer in 2008. Mr. Talarico has served as Chief Compliance Officer for investment advisers, private funds and investment companies since 2004. From 2001 to 2004 Mr. Talarico was senior director at Investors Bank & Trust Company where he was servicing investment advisers, mutual funds and institutions. From 1986 to 2001 Mr. Talarico was a division executive with JPMorgan Chase Bank, N.A., servicing equity and fixed-income portfolio management, money market trading and custody functions, as well as overseeing compliance. Mr. Talarico has been admitted to practice law in the States of New Jersey and New York.

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### **Committees of the Board of Directors**

For the fiscal year ended September 30, 2008, we held six board meetings, four Audit Committee meetings and one Nominating and Corporate Governance Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the board of directors and of the respective committees on which they served. We require each director to make a diligent effort to attend all board and committee meetings and encourage directors to attend the annual meeting of stockholders.

#### ***Audit Committee***

The members of the Audit Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and NASDAQ corporate governance regulations. Mr. Flug serves as chairman of the audit committee. The Audit Committee operates pursuant to an Audit Committee Charter approved by the board of directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm (the auditors) to audit our accounts and records; reviewing and discussing with management and the auditors our annual audited financial statements, including disclosures made in management's discussion and analysis, and recommending to the board of directors whether the audited financial statements should be included in our annual report on Form 10-K; reviewing and discussing with management and the auditors our quarterly financial statements prior to the filing quarterly reports on Form 10-Q; pre-approving the auditors' engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the auditors. The Audit Committee is also responsible for aiding our board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The board of directors and Audit Committee may use the services of nationally recognized independent valuation firms to help them determine the fair value of these securities. Our board of directors has determined that Mr. Flug is our Audit Committee financial expert as that term is defined under Item 401 of Regulation S-K under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The Audit Committee Charter is available on our website: <http://www.pennantpark.com>.

#### ***Nominating and Corporate Governance Committee***

The members of the Nominating and Corporate Governance Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the corporate governance regulations of the NASDAQ. Messrs. Bernstein, Brozost and Katz serve as co-chairmen of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and our management. The Nominating and Corporate Governance Committee has adopted a written Nominating and Corporate Governance Committee Charter that is available on our website: <http://www.pennantpark.com>.

The Nominating and Corporate Governance Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with the Company's bylaws, the Nominating and Corporate Governance Committee Charter and any applicable law, rule or regulation regarding director nominations. Nominations should be sent to Thomas Friedmann, Secretary, c/o PennantPark Investment Corporation, 590 Madison Avenue, 15th Floor, New York, New York 10022. When submitting a nomination to us for consideration, a stockholder must provide all information that would be required under applicable SEC rules to be disclosed in connection with election of a director, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of our common stock owned, if any; and, a written consent of the individual to stand for election if nominated by our board of directors and to serve if elected by the stockholders.

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Criteria considered by the Nominating and Corporate Governance Committee in evaluating the qualifications of individuals for election as members of the board of directors include compliance with the independence and other applicable requirements of the NASDAQ Listing Standards and the 1940 Act, and all other applicable laws, rules, regulations and listing standards, the criteria, policies and principles set forth in the Nominating and Corporate Governance Committee Charter, and the ability to contribute to our effective management, taking into account our needs and such factors as the individual's experience, perspective, skills and knowledge of the industry in which we operate. The Nominating and Corporate Governance Committee also may consider such other factors as it may deem are in our best interests and our stockholders. Our board of directors also believes it is appropriate for a key member of our management to participate as a member of our board of directors.

**Compensation Committee**

We do not have a compensation committee because our executive officers do not receive compensation from us.

**Compensation of Directors**

The following table shows information regarding the compensation paid by us to our directors for the fiscal year ended September 30, 2008. No compensation is paid by us to any interested director or executive officer.

Name	Aggregate compensation from the Company	Pension or retirement benefits accrued as part of our expense <sup>(1)</sup>	Total paid to director / officer
<b>Independent directors</b>			
Adam K. Bernstein	\$ 131,250	None	\$ 131,250
Marshall Brozost	131,250	None	131,250
Jeffrey Flug	138,750	None	138,750
Samuel L. Katz	127,500	None	127,500
<b>Interested director</b>			
Arthur H. Penn	None	None	None
<b>Executive officers</b>			
Aviv Efrat <sup>(2)</sup>	None	None	None
Guy Talarico	None	None	None

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits from us.

(2) Mr. Efrat is an employee of PennantPark Investment Administration, LLC.

Independent directors each receive an annual fee of \$75,000. The independent directors also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting (unless combined with a board meeting). In addition, the Chairman of the Audit Committee receives an annual fee of \$7,500 and each chairman/co-chairman of any other committee receives an annual fee of \$2,500 for their additional services in these capacities. Also, we have purchased directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment. No compensation is paid to directors who are interested persons.

**Table of Contents****CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

As of August 31, 2009, to our knowledge, no person would be deemed to control us, as such term is defined in the 1940 Act.

Our directors consist of one interested director and four independent directors. An interested director is an interested person of us, as defined in the 1940 Act.

The following table sets forth, as of August 31, 2009, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control, or hold with the power to vote, 5 percent or more of our common stock and all officers and directors, as a group.

<b>Name and address<sup>(1)</sup></b>	<b>Type of ownership<sup>(4)</sup></b>	<b>Shares owned</b>	<b>Percentage of Common Stock Ownership</b>
Alpine Total Dynamic Dividend Fund 2500 Westchester Suite, Suite 215 Purchase, NY 10577	Beneficial	1,296,000	6.2%
Clough Capital Partners L.P. One Post Office Square, 40th Floor Boston, MA 02109	Beneficial	1,457,185	6.9%
Wellington Management Company LLP 75 State Street Boston, MA 02109	Beneficial	2,613,491	12.4%
<b>Independent directors</b>			
Adam K. Bernstein <sup>(2)</sup>	Record/Beneficial	85,031	*
Marshall Brozost	Record/Beneficial	8,797	*
Jeffrey Flug	Record/Beneficial	87,964	*
Samuel L. Katz	Record/Beneficial	71,323	*
<b>Interested director</b>			
Arthur H. Penn <sup>(3)</sup>	Record/Beneficial	413,474	1.9%
<b>Executive officers</b>			
Aviv Efrat	Record/Beneficial	28,646	*
All Directors and Executive Officers as a group (6 persons)	Record/Beneficial	695,235	3.2%

(1) The address for each officer and director is c/o PennantPark Investment Corporation, 590 Madison Avenue, 15<sup>th</sup> Floor, New York, New York 10022.

(2) Mr. Bernstein is the President of JAM Investments, LLC and may therefore be deemed to own beneficially the 68,236 shares held by JAM Investments, LLC.

(3) Mr. Penn is the Managing Member of PennantPark Investment Advisers, LLC, and may therefore be deemed to own beneficially the 268,073 shares held by PennantPark Investment Advisers, LLC.

(4) Sole Voting Power.

\* Less than 1 percent.

**Table of Contents****Dollar Range of Securities Beneficially Owned by Director, Officers and Portfolio Managers**

The following table sets forth the dollar range of our equity securities beneficially owned by each of our directors as of August 31, 2009. Information as to the beneficial ownerships based on information furnished to the company by such persons. We are not part of a family of investment companies, as that term is defined in the 1940 Act.

<b>Directors of PennantPark</b>	<b>Dollar Range of Equity Securities in PennantPark<sup>(1)</sup></b>
<b>Independent directors</b>	
Adam K. Bernstein	\$500,001 - \$1,000,000 <sup>(2)</sup>
Marshall Brozost	\$50,001 - \$100,000
Jeffrey Flug	\$500,001 - \$1,000,000
Samuel L. Katz	\$500,001 - \$1,000,000
<b>Interested directors</b>	
Arthur H. Penn	Over \$1,000,000 <sup>(3)</sup>
<b>Executive officers who are not directors</b>	
Aviv Efrat	\$100,001 - \$500,000
<b>Portfolio managers</b>	
Geoffrey S. Chang	\$100,001 - \$500,000
P. Whitridge Williams, Jr.	\$100,001 - \$500,000

(1) Dollar ranges are as follows: None; \$1-\$10,000; \$10,001-\$50,000; \$50,001-\$100,000; \$100,001-\$500,000; \$500,001-\$1,000,000 or over \$1,000,000.

(2) Also reflects holdings of JAM Investments, LLC.

(3) Also reflects holdings of PennantPark Investment Advisers, LLC

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**CERTAIN RELATIONSHIPS AND TRANSACTIONS**

**Investment Management Agreement**

PennantPark Investment has entered into the Investment Management Agreement with the Investment Adviser under which the Investment Adviser, subject to the overall supervision of PennantPark Investment's board of directors, manages the day-to-day operations of and provides investment advisory services to PennantPark Investment. Under the terms of our Investment Management Agreement, PennantPark Investment Advisers:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and

closes and monitors the investments we make.

PennantPark Investment Advisers' services under our Investment Management Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. The Investment Adviser has not yet undertaken any such services, but may do so at any time and without the prior approval of our stockholders or our board of directors. Our board of directors would monitor any potential conflicts that may arise upon such a development. For providing these services, the Investment Adviser receives a fee from PennantPark Investment, consisting of two components—a base management fee and an incentive fee (collectively, Management Fees).

***Investment Advisory Fees***

The base management fee is calculated at an annual rate of 2.00% of our gross assets (net of U.S. Treasury Bills (average adjusted gross total assets)). Although the base management fee is 2.00% of our average adjusted gross total assets, the Investment Adviser waived a portion of the base management fee such that the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007. The base management fee was 1.75% from October 1, 2007 through March 31, 2008. Our base management fee has been 2.00% after March 31, 2008. For services rendered under our Investment Management Agreement the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our average adjusted gross total assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base investment advisory fees for any partial month or quarter are appropriately pro rated. For the nine months ended June 30, 2009 and June 30, 2008, the Investment Adviser earned base management fees, after fee waiver, of \$5.5 million and \$4.8 million, respectively.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, distribution income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under our Administration Agreement, and any interest expense and distributions paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with pay in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, will be compared to a Hurdle of 1.75% per quarter (7.00% annualized). Our net investment income used to calculate this part of the incentive fee

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is also included in the amount of our average adjusted gross total assets used to calculate the 2.00% base management fee. We have agreed to pay PennantPark Investment Advisers an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the Hurdle of 1.75%;

100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the Hurdle but is less than 2.1875% in any calendar quarter (8.75% annualized). We refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the Hurdle but is less than 2.1875%) as the catch-up. The catch-up is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income as if a Hurdle did not apply if this net investment income exceeds 2.1875% in any calendar quarter; and

20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to our Investment Adviser (once the Hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Investment Income thereafter is allocated to our Investment Adviser). These calculations are appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

Graphical Representation of Calculation of Quarterly Incentive Fee Based on Net Investment Income

**Pre-incentive fee net investment income**

(expressed as a percentage of the value of net assets)

**Percentage of pre-incentive fee net investment income**

**allocated to income-related portion of incentive fee**

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and management agreement, as of the termination date), commencing on December 31, 2007 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 the nine months ended June 30, 2009 and June 30, 2008, the Investment Adviser earned \$4.2 million and \$2.4 million, respectively, in incentive fees.

**Examples of Quarterly Incentive Fee Calculation**

**Example 1: Income Related Portion of Incentive Fee (\*):**

**Alternative 1**

*Assumptions*

Investment income (including interest, distributions, fees, etc.) = 1.25%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%



Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 0.55%

Pre-incentive net investment income does not exceed Hurdle; therefore there is no incentive fee.

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**Alternative 2**

*Assumptions*

Investment income (including interest, distributions, fees, etc.) = 2.70%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 2.00%

Incentive fee = 20% x Pre-Incentive Fee Net Investment Income, subject to catch-up  
 = 2.00% - 1.75%  
 = 0.25%  
 = 100% x 0.25%  
 = 0.25%

**Alternative 3**

*Assumptions*

Investment income (including interest, distributions, fees, etc.) = 3.00%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 2.30%

Incentive fee = 20% x Pre-Incentive Fee Net Investment Income, subject to catch-up

Incentive fee = 100% x catch-up + (20% x (Pre-Incentive Fee Net Investment Income - 2.1875%))

Catch-up = 2.1875% - 1.75%

= 0.4375%

= (100% x 0.4375%) + (20% x (2.3% - 2.1875%))

= 0.4375% + (20% x 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

**Example 2: Capital Gains Portion of Incentive Fee:**

*Assumptions*

Year 1 = no net realized capital gains or losses

Year 2 = 6% net realized capital gains and 1% realized capital losses and unrealized capital depreciation Capital gain incentive fee = 20% x (realized capital gains for year computed net of all realized capital losses and unrealized capital depreciation at year end)

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**Management**

Year 1 incentive fee	= 20% x (0) = 0 = no incentive fee
Year 2 incentive fee	= 20% x (6% - 1%) = 20% x 5%