

PENNANTPARK INVESTMENT CORP

Form 497

February 07, 2011

Table of Contents

Filed Pursuant to Rule 497
File No. 333-150033

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated February 7, 2011

Preliminary Prospectus Supplement

To the Prospectus dated

January 28, 2011

7,500,000 Shares

Common Stock

We are offering for sale 7,500,000 shares of our common stock. 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 February 4, 2011 was \$12.96 per share. The net asset value of our common stock on December 31, 2010 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$11.14 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 (`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 senior secured loans, mezzanine debt 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 (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. The SEC also maintains a website at 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 and `Sales of Common Stock Below Net Asset Value` on page 51 of the accompanying prospectus.

Neither the SEC 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.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions (sales load)	\$	\$

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

Proceeds to PennantPark Investment Corporation (before estimated expenses of \$325,000) \$ \$

The underwriters may also purchase up to an additional 1,125,000 shares from us at the public offering price, less the underwriting discounts, 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 \$, the total underwriting discount and commissions (sales load) paid by us will be \$, and total proceeds, before expenses, will be \$.

The underwriters expect to deliver the shares on or about February , 2011.

Morgan Stanley

J.P. Morgan

Stifel Nicolaus Weisel

FBR Capital Markets

Keefe, Bruyette & Woods

Ladenburg Thalmann & Co. Inc.

RBC Capital Markets

The date of this prospectus supplement is February , 2011.

Table of Contents

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.

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

<u>SUPPLEMENTAL PROSPECTUS SUMMARY</u>	S-1
<u>FEES AND EXPENSES</u>	S-7
<u>FORWARD-LOOKING STATEMENTS</u>	S-9
<u>USE OF PROCEEDS</u>	S-10
<u>CAPITALIZATION</u>	S-11
<u>PRICE RANGE OF COMMON STOCK</u>	S-12
<u>SELECTED FINANCIAL DATA</u>	S-13
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	S-15
<u>UNDERWRITING</u>	S-27
MANAGEMENT	S-30
<u>LEGAL MATTERS</u>	S-31
<u>INDEX TO INTERIM FINANCIAL STATEMENTS</u>	S-32
<u>AWARENESS LETTER OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	S-62
<u>CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	S-63
PROSPECTUS	

PROSPECTUS SUMMARY	Page
FEES AND EXPENSES	1
RISK FACTORS	7
FORWARD-LOOKING STATEMENTS	9
USE OF PROCEEDS	32
SELECTED FINANCIAL DATA	33
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	34
SENIOR SECURITIES	34
PRICE RANGE OF COMMON STOCK	49
SALES OF COMMON STOCK BELOW NET ASSET VALUE	50
DISTRIBUTIONS	51
BUSINESS	57
INVESTMENT OBJECTIVES AND POLICIES	59
PORTFOLIO COMPANIES	63
MANAGEMENT	71
CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS	75
CERTAIN RELATIONSHIPS AND TRANSACTIONS	81
DETERMINATION OF NET ASSET VALUE	83
DIVIDEND REINVESTMENT PLAN	89
DESCRIPTION OF OUR CAPITAL STOCK	92
	93

Table of Contents

DESCRIPTION OF OUR PREFERRED STOCK	99
DESCRIPTION OF OUR WARRANTS	100
DESCRIPTION OF OUR SUBSCRIPTION RIGHTS	102
DESCRIPTION OF OUR DEBT SECURITIES	103
REGULATION	116
BROKERAGE ALLOCATIONS AND OTHER PRACTICES	122
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	123
PLAN OF DISTRIBUTION	129
CUSTODIAN, TRANSFER AGENT AND TRUSTEE	131
LEGAL MATTERS	131
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	131
INDEX TO FINANCIAL STATEMENTS	F-1

Table of Contents

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 in making an investment decision. You should read carefully the more detailed information set forth under Risk Factors and the other information included in the accompanying prospectus before making an investment decision. The forward-looking statements involve risks and uncertainties for both us and our consolidated Small Business Investment Company (SBIC) subsidiary and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in the accompanying prospectus and this prospectus supplement. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the terms we, us, Company, our and PennantPark Investment refer to PennantPark Investment Corporation; SBIC LP and our SBIC refer to our wholly owned, consolidated SBIC subsidiary, PennantPark SBIC LP; 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.

General Business of PennantPark Investment Corporation

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. PennantPark Investment seeks to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 to \$50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. 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.

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 has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market 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. We have used, and expect to continue to use, our credit facility, the Small Business Administration (SBA) debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Investment Corporation

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. In addition, for tax purposes we have elected to be treated as a regulated investment company (RIC), under the Internal Revenue Code of 1986, as amended (the Code).

Our wholly owned SBIC subsidiary, PennantPark SBIC LP, was organized as a Delaware limited partnership on May 7, 2010 and received a license from the SBA to operate as an SBIC under Section 301(c) of

Table of Contents

the Small Business Investment Act of 1958 (the 1958 Act) on July 30, 2010. Our SBIC s objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP, generally, invests with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers to develop what we believe to be an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years, and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our inception in 2007, we have raised nearly \$900 million in debt and equity capital, and have invested over \$1 billion in over 100 companies and 54 different financial sponsors.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC and the SBA. The Administrator oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See Management, Certain Relationships and Transactions Investment Management Agreement, and Risk Factors Risks Related to our Business and Structure in the accompanying prospectus for more information.

Market Opportunity

We believe that the limited amount of capital available to the middle-market companies, coupled with the desire 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 middle-market companies have faced difficulty raising debt in private markets. Banks, finance companies, hedge funds and collateralized loan obligation (CLO) funds have withdrawn capital from the middle-market resulting in opportunities for alternative funding sources.

We believe that the current credit market dislocation for middle-market companies improves the risk-adjusted returns of our investments. In the current credit environment, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, there is less competition in our market, more conservative capital structures, higher yields and stronger covenants.

We believe there is a large pool of uninvested private equity capital 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

Table of Contents

funds generally seek to leverage their investments by combining their capital with senior secured loans and/or mezzanine debt 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 there is substantial supply of opportunities resulting from refinancing. A high volume of financings were completed between the years 2004 and 2007, which will come due in the next few years. This supply of opportunities coupled with a lack of demand offers attractive risk-adjusted returns to investors.

Competitive Advantages

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

a) Experienced Management Team

The senior professionals of the Investment Adviser have worked together for many years and average over 20 years of experience in mezzanine lending, leveraged finance, distressed debt and private equity businesses. The senior professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this extensive experience and history has resulted in a strong reputation across the capital markets.

b) Disciplined Investment Approach with Strong Value Orientation

We employ a disciplined approach in selecting investments that meet the long-standing, consistent, 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. See *Business Investment Selection Criteria* in the accompanying prospectus for more information.

In addition to engaging in extensive due diligence, our Investment Adviser seeks to reduce risk by focusing on businesses with:

strong competitive positions;

positive cash flow that is steady and stable;

experienced management teams with strong track records;

potential for growth and viable exit strategies; and

capital structures offering appropriate risk-adjusted terms and covenants.

Table of Contents

c) 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 other 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 the professionals of our Investment Adviser have long-term relationships.

d) Flexible Transaction Structuring

We are flexible in structuring investments and tailor investments to meet the financial needs of a company while also generating attractive risk-adjusted returns. We can invest in any part of a capital structure and our Investment Adviser has extensive experience in making investments in a wide variety of securities for leveraged companies throughout economic and market cycles.

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 that the in-depth coverage and experience of our Investment Adviser will enable us to invest throughout various stages of the economic and market cycles and to provide us with ongoing market insights in addition to a significant investment sourcing engine.

e) 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 attractive 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 finance 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. See **Risk Factors Risks Relating to our Business and Structure** We operate in a highly competitive market for investment opportunities in the accompanying prospectus for more information.

Table of Contents

Leverage

We maintain a five-year, multi-currency \$300.0 million senior secured credit facility (the "credit facility"), which matures on June 25, 2012, and is secured by substantially all of our investment portfolio assets (excluding the assets of SBIC LP) with a group of lenders, under which we had \$255.8 million outstanding with a weighted average interest rate at the time of 1.28% and had \$44.2 million of unused borrowing capacity, which is subject to maintenance of the applicable total assets to debt ratio of 200%, as of December 31, 2010. Pricing of borrowings under our credit facility is set at 100 basis points over the London Interbank Offering Rate ("LIBOR"). We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. In addition, any future additional debt capital we incur, to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current credit facility. See "Recent Developments" in this prospectus supplement for more information.

As of December 31, 2010, SBIC LP had a debenture commitment from the SBA in the amount of \$100.0 million, had \$30.0 million outstanding (including \$29.5 million of temporary draws) with a weighted average interest rate of 0.96%, exclusive of the 3.43% of upfront fees, and had \$70 million remaining unused borrowing capacity subject to customary regulatory requirements. SBA debentures offer competitive terms such as being non-recourse to us, having a 10-year maturity, requiring semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of SBIC LP and have a superior claim over such assets. See "Regulation" in the accompanying prospectus for more information.

Operating and Regulatory Structure

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of PennantPark Investment. Under our investment management agreement (the "Investment Management Agreement"), we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. See "Business Investment Management Agreement" in the accompanying prospectus for more information.

We have also entered into an administration agreement (the "Administration Agreement") with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs. See "Business Administration Agreement" in the accompanying prospectus for more information.

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" for more information. We have elected to be treated for federal income tax purposes under the Code as a RIC. See "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus for more information.

Our wholly owned subsidiary, SBIC LP, received a license from the SBA to operate as an SBIC under Section 301(c) of the 1958 Act and is regulated by the SBA. We serve as the investment adviser and administrator to SBIC LP. As an SBIC, the SBA regulates, among other matters, SBIC LP's investing activities. See "Regulation" in the accompanying prospectus for more information.

Use of Proceeds

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce our then-outstanding obligations under our credit facility, to invest in new or existing portfolio companies or for

Table of Contents

other general corporate purposes. See "Use of Proceeds" in this prospectus supplement for information regarding our outstanding borrowings as of December 31, 2010, 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. Our quarterly dividends, if any, are determined by our board of directors. See "Distributions" in the accompanying prospectus for more information.

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. See "Dividend Reinvestment Plan" in the accompanying prospectus for more information.

Recent Developments

On February 1, 2011, we utilized the accordion feature of our credit facility and expanded the credit facility by \$15.0 million, bringing our total credit facility availability to \$315.0 million. On February 2, 2011, we announced that we increased our quarterly dividend to \$0.27 per share, with a record date of March 15, 2011 and a payable date of April 1, 2011. Individuals who hold shares as of this record date and purchased shares in this offering will be eligible to receive such dividends.

Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on NASDAQ 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.

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 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.

Stockholder transaction expenses (as a percentage of the offering price)	
Sales load	4.75% ⁽¹⁾
Offering expenses	0.33% ⁽²⁾
Total stockholder transaction expenses	5.08%
Estimated annual expenses (as a percentage of average net assets attributable to common shares)⁽³⁾	
Management fees	3.67% ⁽⁴⁾
Incentive fees payable under the Investment Management Agreement	2.53% ⁽⁵⁾
Interest payments on borrowed funds	1.03% ⁽⁶⁾
Other expenses	1.14% ⁽⁷⁾
Total estimated annual expenses	8.37%

- (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 \$325,000 and based on the 7,500,000 shares offered in this offering at the last reported closing price of \$12.96 per share of our common stock on February 4, 2011.
- (3) Net assets attributable to common shares equals average net assets at December 31, 2010 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 three months ended December 31, 2010, 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 three months ended December 31, 2010. For more detailed information about the incentive fee, please see Certain Relationships and Transactions Investment Management Agreement in the accompanying prospectus.
- (6) As of December 31, 2010, we had \$44.2 million unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$255.8 million in borrowings outstanding under our \$300.0 million credit facility. We may use proceeds of this offering to repay outstanding obligations under our credit facility. After completing this 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

Table of Contents

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 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 three months ended December 31, 2010, annualized for a full year. See our Consolidated Statement of Operations in our consolidated financial statements in this prospectus supplement.

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 4.75% sales load (underwriting discounts and commissions) and offering expenses totaling 0.33%, (2) total net annual expenses of 5.84% of average net assets attributable to common shares for the three months ended December 31, 2010 as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	\$ 106	\$ 215	\$ 322	\$ 582

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. Depending upon the market value of our common stock, reinvestment of dividends and distributions under our dividend reinvestment plan may occur at a price per share that differs from, and which could be lower than, net asset value. See **Distributions** and additional information regarding our dividend reinvestment plan in the accompanying prospectus.

Table of Contents

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 both us and our consolidated SBIC subsidiary regarding 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 for both us and our consolidated SBIC subsidiary, 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.

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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.

You should understand that, under Section 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus supplement or the accompanying prospectus or in the periodic reports we file under the Exchange Act.

S-9

Table of Contents

USE OF PROCEEDS

We estimate that net proceeds we will receive from the sale of 7,500,000 shares of our common stock in this offering will be approximately \$92.3 million (or approximately \$106.1 million if the underwriters fully exercise their overallotment option), in each case based on a public offering price of \$12.96 per share, which was the last reported closing price of our common stock on February 4, 2011, after deducting the underwriting discounts and commissions of \$4.6 million (or approximately \$5.3 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$325,000 payable by us. The amount of net proceeds may be more or less than the amount described in this prospectus supplement depending on the public offering price of the common stock and the actual number of shares of common stock we sell in the offering, both of which will be determined at pricing.

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce outstanding obligations under our credit facility, to invest in new or existing portfolio companies or for other general corporate purposes. Affiliates of certain of the underwriters serve as lenders under our credit facility and thereby may receive proceeds from this offering that are used to reduce our outstanding obligations under our credit facility.

As of December 31, 2010, we had \$44.2 million unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$255.8 million in borrowings outstanding under our \$300.0 million credit facility. Borrowings under our credit facility bear interest at an annual rate equal to LIBOR plus 100 basis points per annum. At December 31, 2010, the interest rate at that time was 1.28%. 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, excluding assets of SBIC LP. Amounts repaid under our credit facility will remain available for future borrowings. See [Recent Developments](#) for more information.

As of December 31, 2010, SBIC LP had a debenture commitment from the SBA in the amount of \$100.0 million, had \$30.0 million outstanding (including \$29.5 million of temporary draws) with a weighted average interest rate of 0.96%, exclusive of the 3.43% of upfront fees, and had \$70 million remaining unused borrowing capacity subject to customary regulatory requirements. SBA debentures offer competitive terms such as being non-recourse to us, having a 10-year maturity, requiring semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of SBIC LP and have a superior claim over such assets.

We may invest the proceeds from an offering of securities in new or existing portfolio companies, and such investments may take up to a year 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 non-temporary investments. 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 non-temporary investments. 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 more information.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash and capitalization on December 31, 2010 (1) on an actual basis and (2) on an as-adjusted basis to reflect the effects of the sale of 7,500,000 shares of our common stock in this offering at an offering price of \$12.96 per share, which was the last reported closing price of our common stock on February 4, 2011, (\$12.30 per share net). The as-adjusted information is illustrative only; our capitalization following the completion of this offering is subject to further adjustments. 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 consolidated financial statements and notes thereto, in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus supplement and the accompanying prospectus.

	As of December 31, 2010 (unaudited)	
	Actual	As adjusted for the offering ⁽¹⁾
Cash and cash equivalents	\$ 3,022,137	\$ 95,280,137
Total assets	717,319,253	809,577,253
Borrowings under senior secured credit facility (cost \$255,800,000)	248,445,750	248,445,750
Borrowings under SBA debentures (cost \$30,000,000)	30,000,000	30,000,000
Stockholders' Equity		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized, 36,223,950 shares issued and outstanding, 43,723,950 shares issued and outstanding, as-adjusted, respectively.	36,224	43,724
Paid in capital in excess of par	429,267,895	521,518,395
Undistributed net investment income	3,672,171	3,672,171
Accumulated net realized loss on investments	(63,618,182)	(63,618,182)
Net unrealized appreciation on investments	26,678,604	26,678,604
Net unrealized depreciation on credit facility	7,354,250	7,354,250
Total stockholders' equity	403,390,962	495,648,962
Total capitalization	\$ 681,836,712	\$ 774,094,712

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

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 February 4, 2011, the last reported closing price of our common stock was \$12.96 per share.

Period	NAV ⁽¹⁾	Closing Sales Price		High Sales	Low Sales	Dividends Declared
		High	Low	Price to NAV ⁽²⁾	Price to NAV ⁽²⁾	
Fiscal year ending September 30, 2011						
Second quarter (through February 4, 2011)	\$ N/A	\$ 12.96	\$ 12.07	N/A%	N/A%	\$ 0.27 ⁽³⁾
First quarter	11.14	12.75	10.60	114	95	0.26
Fiscal year ending September 30, 2010						
Fourth quarter	10.69	10.69	9.17	100	86	0.26
Third quarter	10.94	11.84	9.02	108	82	0.26
Second quarter	11.07	10.77	8.88	97	80	0.26
First quarter	11.86	9.15	7.63	77	64	0.25
Fiscal year ended September 30, 2009						
Fourth quarter	11.85	9.06	6.28	76	53	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
Fiscal year ended September 30, 2008						
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
Fiscal year ended September 30, 2007						
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. See "Certain Relationships and Transactions" in the accompanying prospectus for more information.

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

(3) Payable April 1, 2011.

* 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 \$12.25 and \$10.61 as of December 31, 2010 and September 30, 2010, respectively. Our NAV was \$11.14 and \$10.69, as of December 31, 2010 and September 30, 2010, respectively. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

Table of Contents**SELECTED FINANCIAL DATA**

We have derived the financial information below from our audited and 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 periods. The Statement of operations data, Per share data and Balance sheet data for the years ended September 30, 2010, 2009 and 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 for the periods ended September 30, 2010, 2009, 2008 and 2007 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. Interim results as of and for the three months ended December 31, 2010, are not necessarily indicative of the results that may be expected for the year ending September 30, 2011. This selected financial data for the three months ended December 31, 2010 should be read in conjunction with our consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement.

	Three months ended December 31, 2010	Year ended September 30, 2010	Year ended September 30, 2009	Year ended September 30, 2008	For the period from January 11, 2007 (inception) through September 30, 2007
(Dollar amounts in thousands, except per share data)	Unaudited	Audited	Audited	Audited	Audited
Statement of operations data:					
Total investment income	19,979	\$ 60,140	\$ 45,119	\$ 39,811	\$ 13,107
Net expenses before base management fee waiver	8,808	28,065	22,400	21,676	6,444
Net expenses after base management fee waiver ⁽¹⁾	8,808	28,065	22,400	21,255	5,803
Net investment income	11,171	32,075	22,719	18,556	7,304
Net realized and unrealized gain (loss)	14,351	(15,539)	13,083	(59,259)	(24,004)
Net increase (decrease) in net assets resulting from operations	25,522	16,535	35,802	(40,703)	(16,699)
Per share data:					
Net asset value (at period end)	11.14	10.69	11.85	10.00	12.83
Net investment income ⁽²⁾	0.31	1.09	1.08	0.88	0.35
Net realized and unrealized gain (loss) ⁽²⁾	0.40	(0.53)	0.62	(2.81)	(1.15)
Net increase (decrease) in net assets resulting from operations ⁽²⁾	0.71	0.56	1.70	(1.93)	(0.80)
Distributions declared ^{(2),(6)}	(0.26)	(1.09)	(0.96)	(0.90)	(0.36)
Balance sheet data (at period end):					
Total assets	717,319	711,494	512,381	419,811	555,008
Total investment portfolio	704,268	664,724	469,760	372,148	291,017
Borrowings outstanding	278,446 ⁽⁵⁾	233,641 ⁽⁵⁾	175,475 ⁽⁵⁾	202,000	10,000
Payable for investments and unfunded investments	18,580	74,988	25,821		273,339
Total net asset value	403,391	386,575	300,580	210,728	270,393
Other data:					
Total return ⁽³⁾	17.91%	44.79%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end) ⁽⁴⁾	45	43	42	37	38
Yield on debt portfolio (at period end) ⁽⁴⁾	13.4%	12.7%	11.4%	11.1%	10.1%

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

- (1) The base management fee waiver was in effect from inception through March 31, 2008. See "Certain Relationships and Transaction" in the accompanying prospectus for more information.
- (2) Based on the weighted average shares outstanding for the respective periods.
- (3) Based on the change in market price per share during the periods and taking into account dividends and distributions, if any, reinvested in accordance with our dividend reinvestment plan. Total return is not annualized for a period less than one year.
- (4) Unaudited.
- (5) At fair value in the case of our credit facility.
- (6) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under U.S. generally accepted accounting principles.

S-13

Table of Contents**Selected Quarterly Data (Unaudited)**

(dollar amounts in thousands, except per share data)

	2011 Q1
Total investment income	\$ 19,979
Net investment income	\$ 11,171
Net realized and unrealized gain	\$ 14,351
Net increase in net assets resulting from operations	\$ 25,522
Earnings per common share	\$ 0.31
Net asset value per share at the end of the quarter	\$ 11.14
Market value per share at the end of the quarter	\$ 12.25

	2010			
	Q4	Q3	Q2	Q1
Total investment income	\$ 16,681	\$ 16,335	\$ 13,525	\$ 13,599
Net investment income	\$ 8,957	\$ 8,821	\$ 7,059	\$ 7,238
Net realized and unrealized (loss) gain	\$ (2,326)	\$ (4,561)	\$ (10,090)	\$ 1,438
Net increase (decrease) in net assets resulting from operations	\$ 6,630	\$ 4,260	\$ (3,031)	\$ 8,676
Earnings per common share	\$ 0.20	\$ 0.13	\$ (0.11)	\$ 0.34
Net asset value per share at the end of the quarter	\$ 10.69	\$ 10.94	\$ 11.07	\$ 11.86
Market value per share at the end of the quarter	\$ 10.61	\$ 9.55	\$ 10.37	\$ 8.92

	2009			
	Q4	Q3	Q2	Q1
Total investment income	\$ 11,847	\$ 10,770	\$ 10,425	\$ 12,077
Net investment income	\$ 6,018	\$ 5,666	\$ 5,267	\$ 5,768
Net realized and unrealized gain (loss)	\$ 20,162	\$ (6,486)	\$ 36,932	\$ (37,525)
Net increase (decrease) in net assets resulting from operations	\$ 26,180	\$ (820)	\$ 42,199	\$ (31,757)
Earnings per common share	\$ 1.23	\$ (0.04)	\$ 2.00	\$ (1.51)
Net asset value per share at the end of the quarter	\$ 11.85	\$ 11.72	\$ 12.00	\$ 10.24
Market value per share at the end of the quarter	\$ 8.11	\$ 7.10	\$ 3.75	\$ 3.61

	2008			
	Q4	Q3	Q2	Q1
Total investment income	\$ 11,431	\$ 9,662	\$ 9,714	\$ 9,004
Net investment income	\$ 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

	2007		
	Q4	Q3	Q2*
Total investment income	\$ 6,909	\$ 5,425	\$ 773
Net investment income	\$ 4,348	\$ 3,208	\$ (251)
Net realized and unrealized gain (loss)	\$ (18,870)	\$ (5,152)	\$ 18
Net (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)

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

- * From January 11, 2007 (inception of operations) through March 31, 2007.
- (1) Our common shares began trading on April 19, 2007.

S-14

Table of Contents

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

Overview

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. PennantPark Investment seeks to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 to \$50 million of capital, on average, in the securities of middle-market companies. We use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$1 billion. 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.

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. Turmoil in the credit markets has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market debt instruments. These conditions have presented us with and may continue to offer attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. We have used, and expect to continue to use, our credit facility, the SBA debentures, proceeds from the rotation of our portfolio, proceeds from public and private offerings of securities to finance our investment objectives. In the future, we may also securitize a portion of our investments to raise investment capital.

Organization and Structure of PennantPark Investment Corporation

PennantPark Investment Corporation was organized under the Maryland General Corporation Law in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC 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, 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 wholly owned SBIC subsidiary, PennantPark SBIC LP, was organized as a Delaware limited partnership on May 7, 2010 and received a license from the SBA to operate as an SBIC under Section 301(c) of the 1958 Act on July 30, 2010. Our SBIC's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP, generally, invests with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

Our investment activities are managed by 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.

PennantPark Investment, through the Investment Adviser, provides similar services to SBIC LP under its investment management agreement with us. The SBIC LP investment management agreement does not affect the management and incentive fees that we pay to the Investment Adviser on a consolidated basis. We have also

Table of Contents

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. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement with us. Our board of directors, a majority of whom are independent of us and PennantPark Investment Advisers, supervises our activities.

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 senior secured loans or mezzanine debt, typically have a term of three to ten years and 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 payments-in-kind (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 income. We record contractual prepayment premiums on loans and debt securities as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date 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 and SBA debentures. We bear all other direct or indirect 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 or complimentary businesses;

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;

S-16

Table of Contents

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

costs associated with our reporting and compliance obligations under the 1940 Act, the 1958 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.

PORTFOLIO AND INVESTMENT ACTIVITY

As of December 31, 2010, our portfolio totaled \$704.3 million and consisted of \$277.6 million of senior secured loans, \$101.5 million of second lien secured debt, \$266.8 million of subordinated debt and \$58.4 million of preferred and common equity investments. Our portfolio consisted of 52% fixed rate investments, 34% variable rate investments with a LIBOR or prime floor and 14% variable rate investments. Overall, the portfolio had an unrealized appreciation of \$26.7 million. Our overall portfolio consisted of 45 companies with an average investment size of \$15.7 million, a weighted average yield on debt investments of 13.4%, and was invested 40% in senior secured loans, 14% in second lien secured debt, 38% in subordinated debt and 8% in preferred and common equity investments.

As of September 30, 2010, our portfolio totaled \$664.7 million and consisted of \$234.6 million of senior secured loans, \$156.7 million of second lien secured debt, \$223.9 million of subordinated debt and \$49.5 million of preferred and common equity investments. Our portfolio consisted of 49% fixed-rate investments, 26% variable rate investments with a LIBOR or prime floor and 25% variable rate investments. Overall, the portfolio had an unrealized appreciation of \$8.0 million. Our overall portfolio consisted of 43 companies with an average investment size of \$15.5 million, a weighted average yield on debt investments of 12.7%, and was invested 35% in senior secured loans, 24% in second lien secured debt, 34% in subordinated debt and 7% in preferred and common equity investments.

For the three months ended December 31, 2010, we invested \$99.9 million in six new portfolio companies and one existing portfolio company with a weighted average yield on debt investments of 15.0% (yield on debt investments, excluding value of attached equity, was 14.0%). Sales and repayments of long-term investments for the three months ended December 31, 2010 totaled \$85.5 million.

For the three months ended December 31, 2009, we invested \$50.5 million in six new and two existing portfolio companies with a weighted average yield on debt investments of 12.8%. Sales and repayments of long term investments for the three months ended December 31, 2009 totaled \$16.8 million.

CRITICAL ACCOUNTING POLICIES

The discussion of our financial condition and results of operation is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles (GAAP). The preparation of these consolidated 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 consolidated financial statements.

Valuation of Portfolio Investments

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 independent pricing services or at

Table of Contents

the bid prices obtained from at least two broker/dealers if available, otherwise 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. First lien secured debt, subordinated debt and other debt investments with maturities greater than 60 days generally are valued by an independent pricing service or at the bid prices from at least two broker/dealers (if available, otherwise by a principal market maker or a primary market dealer). Investments, of sufficient credit quality, purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value.

We expect that there will not be readily available market values for most, if not all, of the investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy, described herein, and a consistently applied valuation process. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. 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. See Note 5 to the consolidated financial statements in this prospectus supplement.

With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, 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 review 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.

Fair Value Measurements, as defined under Accounting Standards Codification (ASC) 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an

Table of Contents

asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of PennantPark Investment. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on the best information available at the time.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

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. Generally, most of our investments 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 are 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 was available.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur.

In addition to using the above inputs in cash and cash equivalents, investments and long-term credit facility valuations, PennantPark Investment employs the valuation policy approved by its board of directors that is consistent with ASC 820 (See Note 2 to our consolidated financial statements in this prospectus supplement). Consistent with our valuation policy, PennantPark Investment evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value.

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt 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 of an investment 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 non-public 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 investments 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

Table of Contents

portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we determine that it is probable that we will not be able to collect such interest. Loan origination fees, original issue discount, market discount or premium and deferred financing costs on our debt are capitalized, and we then amortize such amounts as interest income or expense as applicable. We record contractual prepayment premiums on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date 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 or PIK

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.

Federal Income Taxes

We operate so as to qualify to maintain our election to be taxed as a RIC under Subchapter M of the Code and intend to continue to do so. In order to qualify as a RIC and to not be subject to corporate-level tax on income, we are required, under Subchapter M of the Code, to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any to our stockholders on an annual basis. Although not required for us to maintain our RIC tax status, we must also distribute an amount at least equal to the sum of 98% of our ordinary income (during each calendar year) plus 98.2% of our net capital gains (during each 12 month period ending on October 31) to avoid a 4% excise tax.

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.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the three months ended December 31, 2010 and 2009.

Investment Income

Investment income for the three months ended December 31, 2010 was \$20.0 million and was primarily attributable to \$7.3 million from senior secured loans, \$3.2 million from second lien secured debt investments and \$7.4 million from subordinated debt investments. This compares to investment income for the three months ended December 31, 2009, which was \$13.6 million, and was primarily attributable to \$3.5 million from senior secured loans, \$3.2 million from second lien secured debt investments and \$5.4 million from subordinated debt

Table of Contents

investments. The remaining investment income for the three months ended December 31, 2010 and 2009 was primarily attributed to interest income from 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 and by rotation out of lower yielding investments.

Expenses

Expenses for the three months ended December 31, 2010, totaled \$8.8 million. Base management fee for the same period totaled \$3.5 million, performance-based incentive fee totaled \$2.8 million, credit facility and SBA debentures related expenses totaled \$1.1 million, general and administrative expenses totaled \$1.3 million, and excise taxes totaled \$0.1 million. This compares to expenses for the three months ended December 31, 2009, which totaled \$6.4 million. Base management fee for the same period totaled \$2.5 million, performance-based incentive fee totaled \$1.8 million, credit facility related expenses totaled \$0.8 million, general and administrative expenses totaled \$1.1 million and excise taxes totaled \$0.1 million. The increase in expenses is due to the growth of the portfolio and net investment income.

Net Investment Income

Net investment income totaled \$11.2 million, or \$0.31 per share, for the three months ended December 31, 2010, and \$7.2 million, or \$0.28 per share, for the three months ended December 31, 2009.

Net Realized Gains or Losses

Sales and repayments of long-term investments for the three months ended December 31, 2010 totaled \$85.5 million and realized gains totaled \$2.3 million due to sales and repayments of our debt investments. Sales and repayments of long-term investments totaled \$16.8 million and net realized losses totaled \$16.6 million for the three months ended December 31, 2009.

Net Change in Unrealized Appreciation or Depreciation on Investments and Credit Facility

For the three months ended December 31, 2010 and 2009, our investments had a net change in unrealized appreciation of \$18.7 million and \$23.9 million, respectively. The decrease in the net change in unrealized appreciation compared to the prior year is the result of the changes in the leveraged credit markets over the comparable period. On December 31, 2010 and September 30, 2010, net unrealized appreciation on investments totaled \$26.7 million and \$8.0 million, respectively.

For the three months ended December 31, 2010 and 2009, our long-term credit facility had a net change in unrealized appreciation of \$6.6 million and \$5.8 million, respectively. Net change in unrealized appreciation on our credit facility over the prior year is the result of it approaching maturity. On December 31, 2010 and September 30, 2010, net unrealized depreciation on our long-term credit facility totaled \$7.4 million and \$14.0 million, respectively.

Net Increase in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled \$25.5 million, or \$0.71 per share, for the three months ended December 31, 2010. This compares to a net increase in net assets resulting from operations which totaled \$8.7 million, or \$0.34 per share, for the three months ended December 31, 2009. This increase in net assets from operations is due to the continued growth in net investment income as a result of growing our portfolio offset by the appreciation in the value of our credit facility as it approaches maturity.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived from our credit facility, SBA debentures and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and other operating expenses we incur. We used, and expect to continue to use, these capital resources as well as proceeds from rotation out of our portfolio and from public and private offerings of securities to finance our investment objectives.

As of December 31, 2010 and September 30, 2010, we had \$44.2 million and \$66.9 million, respectively, of unused borrowing capacity under our credit facility, subject to maintenance of the applicable total assets to debt ratio of 200%, maintenance of a blended percentage of the values of our portfolio companies and restrictions on certain payments and issuance of debt.

On June 25, 2007, PennantPark Investment entered into its 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 JPMorgan Chase (Chase Lincoln First Commercial as successor in interest of Bear Stearns Corporate Lending Inc.) acted as joint lead arranger and syndication agent. As of December 31, 2010 and September 30, 2010, there were \$255.8 million and \$233.1 million (including a \$5.2 million temporary draw) in outstanding borrowings under the credit facility, with a weighted average interest rate at the time of 1.28% and 1.34%, exclusive of the fee on undrawn commitment of 0.20%, respectively.

Under the 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, except for those assets of SBIC LP. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR.

The credit facility contains affirmative and restrictive covenants, including but not limited to maintenance of a minimum shareholders' equity of the greater of (i) 40% of the total assets of PennantPark Investment and its subsidiaries as of 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 and 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 (excluding any exemptive relief granted by the SEC with respect to the indebtedness of any SBIC subsidiary). In addition to the asset coverage ratio described in the preceding sentence, borrowings under our credit facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in PennantPark Investment's portfolio. As of December 31, 2010, we were in compliance with the terms of our credit facility.

We may raise additional equity or debt capital through both registered offerings off a shelf registration and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA through our SBIC subsidiary, among other considerations. Any future additional debt capital we incur, to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current credit facility. We continuously monitor conditions in the credit markets and seek opportunities to enhance our debt structure as our credit facility matures in June 2012. Furthermore, our availability under the credit facility depends on various covenants and restrictions discussed in the preceding paragraph. The primary uses 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 and other general corporate purposes. See "Recent Developments" for more information.

For the three months ended December 31, 2010, we did not sell shares of our common stock. This compares to selling 0.4 million shares for \$3.3 million for the same period in the prior year. Any sale or other issuance of

Table of Contents

shares of our common stock at a price below net asset value per share has resulted and will continue to result in an immediate dilution to our stockholder's interest in our common stock and a reduction of our net asset value per share.

As of December 31, 2010, we had committed \$50.0 million to SBIC LP, funded SBIC LP with equity capital of \$50.0 million, had SBA debentures outstanding of \$30.0 million with a weighted average interest rate at the time of 0.96%, exclusive of 3.43% of upfront fees and had \$70 million remaining unused borrowing capacity subject to customary regulatory requirements. As of September 30, 2010, we had committed \$50.0 million to SBIC LP, funded SBIC LP with equity capital of \$14.5 million, had SBA debentures outstanding of \$14.5 million with a weighted average interest rate at the time of 0.84%, exclusive of 3.43% of upfront fees, and had \$19 million remaining unused borrowing capacity. SBA debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150 million, which is up to twice its potential regulatory capital. This means that SBIC LP may access the maximum borrowing if it has \$75 million in regulatory capital.

As of December 31, 2010, SBIC LP had a debenture commitment from the SBA in the amount of \$100.0 million with \$30.0 million outstanding. Of the \$30.0 million of SBA debentures outstanding, \$0.5 million is fixed for 10-years with a rate of 3.50% (inclusive of the SBA annual fee) and \$29.5 million is temporary financing currently bearing a weighted average rate of 0.92% that will reset to a market-driven rate in March 2011 and will remain fixed thereafter for 10 years.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, SBIC LP is subject to regulatory requirements including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries, requiring capitalization thresholds that limit distributions to us, and is subject to periodic audits and examinations. As of December 31, 2010, SBIC LP was in compliance with its regulatory requirements.

In connection with the filing of its SBA license application, PennantPark Investment has applied for exemptive relief from the SEC to permit us to exclude the debt of SBIC LP from our consolidated asset coverage ratio. There can be no assurance that we will be able to capitalize SBIC LP with sufficient regulatory capital to borrow the maximum amount available or that we will receive an exemptive relief from the SEC with respect to the SBA-guaranteed debentures.

If we are granted exemptive relief, our ratio of total assets on a consolidated basis to outstanding to indebtedness may be greater than 200% which, while providing increased investment flexibility, would also increase our exposure to risks associated with leverage.

As of December 31, 2010, we had approximately \$60 million of assets bearing a coupon of 9% or lower. We will seek to rotate these assets into new higher yielding investments over time.

Our operating activities used cash of \$27.3 million for the three months ended December 31, 2010, and our financing activities provided cash of \$28.5 million for the same period, primarily from net borrowings under the credit facility and SBA debentures.

Our operating activities used cash of \$45.1 million for the three months ended December 31, 2009, and our financing activities provided cash of \$18.9 million for the same period, primarily from proceeds on issuance of common stock and net borrowings on our credit facility.

Table of Contents**Contractual Obligations**

A summary of our significant contractual payment obligations as of December 31, 2010 including, but not limited to, borrowings under our multi-currency \$300.0 million, five-year, revolving credit facility maturing in June 2012 and other contractual obligations are as follows:

	Total	Payments due by period (in millions)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior secured revolving credit facility ⁽¹⁾	\$ 255.8	\$	\$ 255.8	\$	\$
SBA debentures ⁽²⁾	30.0				30.0
Subtotal debt outstanding ⁽³⁾	285.8		255.8		30.0
Unfunded investments ⁽⁴⁾	18.6		18.6		
Total contractual obligations	\$ 304.4	\$	\$ 274.4	\$	\$ 30.0

- (1) As of December 31, 2010, we had \$44.2 million of unused borrowing capacity under our credit facility, subject to maintenance of the applicable total assets to debt ratio of 200%, maintenance of a blended percentage of the values of our portfolio companies and restrictions on certain payments and issuance of debt.
- (2) As of December 31, 2010, SBIC LP had \$70.0 million of unused borrowing capacity under SBIC LP's commitment from the SBA and \$29.5 million of SBA debentures that will have a rate reset in March 2011.
- (3) The weighted average interest rate on the total debt outstanding as of December 31, 2010 is 1.25% exclusive of the fee on the undrawn commitment of 0.20% on the credit facility and 3.43% of upfront fees on SBIC LP's SBA debentures.
- (4) Unfunded debt investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments in first lien secured debt and subordinated debt investments.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was renewed in February 2011, PennantPark Investment Advisers serves as our investment adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, provides similar services to SBIC LP under its investment management agreement with us. The SBIC LP investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. 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 Note 3 to the consolidated financial statements in this prospectus supplement.

Under our Administration Agreement, which was renewed in February 2011, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement, which is intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, we or 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 staffs. See Note 3 to the consolidated financial statements in this prospectus supplement.

If any of our contractual obligations discussed above are 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.

Table of Contents

Off-Balance Sheet Arrangements

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

Distributions

In order to qualify as a RIC and to not be subject to corporate-level tax on income, we are required, under Subchapter M of the Code, to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, to our stockholders on an annual basis. Although not required for us to maintain our RIC tax status, we must also distribute an amount at least equal to the sum of 98% of our ordinary income (during each calendar year) plus 98.2% of our net capital gains (during each 12 month period ending on October 31) to avoid a 4% excise tax. For the three months ended December 31, 2010 and 2009, we have elected to retain a portion of our calendar year income and record an excise tax of \$0.1 million and \$0.1 million, respectively.

During the three months ended December 31, 2010 and 2009, we declared distributions of \$0.26 and \$0.25 per share, respectively, for total distributions of \$9.4 million and \$6.5 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-DIV after the end of the calendar year.

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

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.

In January 2010, 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, 2011 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 have not elected to distribute stock as a dividend but reserve the right to do so.

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 applicable to us as a business development company under the 1940 Act and/or due to provisions in future credit

Table of Contents

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.

Quantitative And Qualitative Disclosures 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 December 31, 2010 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. During the periods covered by this Report, we did not engage in interest rate hedging activities.

Table of Contents**UNDERWRITING**

We intend to offer the shares through the underwriters named in the table below. Morgan Stanley & Co. Incorporated, J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated 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, the number of shares set forth opposite the underwriter's name.

Underwriter Names	Number of Shares
Morgan Stanley & Co. Incorporated	
J.P. Morgan Securities LLC	
Stifel, Nicolaus & Company, Incorporated	
FBR Capital Markets & Co.	
Keefe, Bruyette & Woods, Inc.	
Ladenburg Thalmann & Co. Inc.	
RBC Capital Markets, LLC	
Total	7,500,000

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and our independent registered public accounting firm. The underwriters are committed to purchase all shares included in this offering, other than those shares covered by the over-allotment option described below, if they purchase any of the shares. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

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.

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 \$ _____ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$ _____ 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 1,125,000 shares.

	Per Share	Without Option	With Option
Public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
Proceeds to PennantPark Investment Corporation (before offering expenses of \$325,000)	\$	\$	\$

Table of Contents

Overallotment Option

We have granted an option to the underwriters to purchase up to 1,125,000 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 supplement solely to cover any overallotments. If the underwriters exercise this option, they will be obligated, subject to conditions contained in the underwriting agreement, to purchase the additional shares approximately proportionate to that underwriter's initial purchase commitment.

No Sales of Similar Securities

We have agreed, with exceptions, not to sell or transfer any common stock for 90 days after the date of this prospectus without first obtaining the written consent of Morgan Stanley & Co. Incorporated, J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated.

Our executive officers and directors, PennantPark Investment Advisers, LLC, and Pennant Park Investment Administration, LLC 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 Morgan Stanley & Co. Incorporated, J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated. 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.

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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

S-28

Table of Contents

compared to the price at which the underwriters may purchase shares through the overallotment 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.

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 make 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 and follow-on public offerings for which they received customary fees. Affiliates of the underwriters may receive part of the proceeds of the offering by reason of the repayment of certain amounts outstanding under our credit facility.

The principal business address of the underwriters are: Morgan Stanley & Co. Incorporated is 1585 Broadway, New York, NY 10036; J.P. Morgan Securities LLC is 383 Madison Ave., New York, NY 10179; and Stifel, Nicolaus & Company, Incorporated is One Financial Plaza, 501 N. Broadway, St. Louis, MO 63102.

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. Below is a summary of our board Composition and Leadership Structure. See Management in the accompanying prospectus for more information.

Board of Directors Composition and Leadership Structure.

The 1940 Act requires that at least a majority of the Company's directors not be interested persons (as defined in the 1940 Act) of the Company. Currently, four of the Company's five directors are Independent Directors; however the Chairman of the Board of Directors is an interested person of the Company. The Independent Directors believe that the combined position of Chief Executive Officer of the Company and Chairman of the Board of Directors of the Company results in greater efficiencies in managing the Company by eliminating the need to transfer substantial information quickly and repeatedly between the Chief Executive Officer and the Chairman, and the ability to capitalize on the specialized knowledge acquired from the duties of the roles. The Board of Directors has not identified a lead Independent Director; however, it has determined that its leadership structure, in which 80% of the directors are Independent Directors and, as such are not affiliated with the Adviser or PennantPark Investment Administration, LLC (the Administrator), is appropriate in light of the services that the Adviser and the Administrator provides to the Company and the potential conflicts of interest that could arise from these relationships.

Portfolio Managers Biographical Information.

Our Investment Adviser has experienced investment professionals who are partners of the firm. These senior investment professionals of the Investment Adviser have worked together for many years, and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Below is a summary of their biographical information. See Management, Certain Relationships and Transactions Investment Management Agreement, and Risk Factors-Risks Relating to our Business and Structure in the accompanying prospectus for more information.

Arthur H. Penn, 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.

Salvatore Giannetti III became Partner of PennantPark Investment Advisers in February 2007. Mr. Giannetti was most recently Partner in the private equity firm Wilton Ivy Partners since 2004. He was a Managing Director at UBS Securities LLC in its Financial Sponsors and Leveraged Finance Group from 2000 to 2001. From 1997 to 2000, Mr. Giannetti was a Managing Director in the Investment Banking Division at Deutsche Bank (joining BT

Table of Contents

Securities and BT Alex Brown Inc.). From 1986 to 1997, Mr. Giannetti worked in the Investment Banking, Syndicated Loan & Private Equity groups at Chase Securities Inc. and its predecessor firms, Chemical Securities and Manufacturers Hanover.

P. Whitridge Williams, Jr. became Partner of PennantPark Investment Advisers in March 2007. Mr. Williams was most recently a Managing Director in the Financial Sponsors and Leveraged Finance Group at UBS Securities LLC. Mr. Williams worked at UBS and predecessor firms, including Dillon Read and Co. Inc. from 1996 to 2007. During Mr. Williams' tenure at UBS, he spent four years as a senior member of the Telecom, Media and Technology Group.

Jose A. Briones became Partner of PennantPark Investment Advisers in December 2009. Mr. Briones was most recently a Partner of Apollo Investment Management, L.P. and a member of its investment committee since 2006. He was a Managing Director with UBS Securities LLC in the Financial Sponsors and Leveraged Finance Group from 2001 to 2006. Prior to joining UBS he was a Vice President with JP Morgan in the Global Leveraged Finance Group from 1999 to 2001. From 1992 to 1999, Mr. Briones was a Vice President at BT Securities and BT Alex Brown Inc. in the Corporate Finance Department.

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.

S-31

Table of Contents

Interim Financial Statements

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	S-33
<u>Consolidated Statements of Assets and Liabilities as of December 31, 2010 (unaudited) and September 30, 2010</u>	S-34
<u>Consolidated Statements of Operations for the three months ended December 31, 2010 and 2009 (unaudited)</u>	S-35
<u>Consolidated Statements of Changes in Net Assets for the three months ended December 31, 2010 and 2009 (unaudited)</u>	S-36
<u>Consolidated Statements of Cash Flows for the three months ended December 31, 2010 and 2009 (unaudited)</u>	S-37
<u>Consolidated Schedules of Investments as of December 31, 2010 (unaudited) and September 30, 2010</u>	S-38
<u>Notes to Consolidated Financial Statements (unaudited)</u>	S-47

S-32

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

PennantPark Investment Corporation and subsidiaries

We have reviewed the accompanying consolidated statement of assets and liabilities of PennantPark Investment Corporation and subsidiaries (the Company), including the consolidated schedules of investments, as of December 31, 2010, and the consolidated statements of operations, changes in net assets, and cash flows for the three month periods ended December 31, 2010 and 2009. These interim consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities of PennantPark Investment Corporation and subsidiaries, including the consolidated schedule of investments, as of September 30, 2010; and in our report dated November 17, 2010, we expressed an unqualified opinion on that financial statement and schedule.

New York, New York

February 2, 2011

S-33

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	December 31, 2010 (unaudited)	September 30, 2010
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$651,948,035 and \$631,280,755, respectively)	\$ 680,710,779	\$ 641,290,626
Non-controlled, affiliated investments, at fair value (cost \$17,641,671 and \$17,427,648, respectively)	15,557,531	15,433,680
Controlled, affiliated investments, at fair value (cost \$8,000,100 and \$8,000,100, respectively)	8,000,100	8,000,100
Total Investments, at fair value (cost \$677,589,806 and \$656,708,503, respectively)	704,268,410	664,724,406
Cash and cash equivalents (See Note 8)	3,022,137	1,814,451
Interest receivable	7,357,002	12,814,096
Receivables for investments sold		30,254,774
Prepaid expenses and other assets	2,671,704	1,886,119
Total assets	717,319,253	711,493,846
Liabilities		
Distributions payable	9,418,227	9,401,281
Payable for investments purchased		52,785,000
Unfunded investments	18,580,431	22,203,434
Credit facility payable (cost \$255,800,000 and \$233,100,000, respectively) (See Notes 5 and 10)	248,445,750	219,141,125
SBA debentures payable (cost \$30,000,000 and \$14,500,000, respectively) (See Note 10)	30,000,000	14,500,000
Interest payable on credit facility and SBA debentures	267,310	215,135
Management fee payable (See Note 3)	3,498,594	3,286,816
Performance-based incentive fee payable (See Note 3)	2,792,994	2,239,011
Accrued other expenses	924,985	1,146,821
Total liabilities	313,928,291	324,918,623
Net Assets		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 36,223,950 and 36,158,772 shares issued and outstanding, respectively	36,224	36,159
Paid-in capital in excess of par	429,267,895	428,675,184
Undistributed net investment income	3,672,171	1,800,646
Accumulated net realized loss on investments	(63,618,182)	(65,911,544)
Net unrealized appreciation on investments	26,678,604	8,015,903
Net unrealized depreciation on credit facility	7,354,250	13,958,875
Total net assets	\$ 403,390,962	\$ 386,575,223
Total liabilities and net assets	\$ 717,319,253	\$ 711,493,846
Net asset value per share	\$ 11.14	\$ 10.69

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended December 31,	
	2010	2009
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$ 18,559,165	\$ 12,951,233
Other	846,584	319,603
From non-controlled, affiliated investments:		
Interest	363,432	327,649
From controlled, affiliated investments:		
Interest	210,000	
Total investment income	19,979,181	13,598,485
Expenses:		
Base management fee (See Note 3)	3,498,594	2,524,653
Performance-based incentive fee (See Note 3)	2,792,994	1,809,380
Interest and expenses on the credit facility and SBA debentures (See Note 10)	1,135,427	818,683
Administrative services expenses (See Note 3)	579,055	557,504
Other general and administrative expenses	683,359	543,415
Expenses before taxes	8,689,429	6,253,635
Excise tax (See Note 2)	118,967	106,962
Total expenses	8,808,396	6,360,597
Net investment income	11,170,785	7,237,888
Realized and unrealized gain (loss) on investments and credit facility:		
Net realized gain (loss) on non-controlled, non-affiliated investments	2,293,362	(16,603,865)
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments	18,752,873	24,093,662
Non-controlled, affiliated investments	(90,172)	(212,524)
Credit facility unrealized (appreciation) (See Note 5)	(6,604,625)	(5,838,914)
Net change in unrealized appreciation	12,058,076	18,042,224
Net realized and unrealized gain from investments and credit facility	14,351,438	1,438,359
Net increase in net assets resulting from operations	\$ 25,522,223	\$ 8,676,247
Net increase in net assets resulting from operations per common share (See Note 7)	\$ 0.71	\$ 0.34
Net investment income per common share	\$ 0.31	\$ 0.28

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****(Unaudited)**

	Three Months Ended December 31,	
	2010	2009
Increase in net assets from operations:		
Net investment income	\$ 11,170,785	\$ 7,237,888
Net realized gain (loss) on investments	2,293,362	(16,603,865)
Net change in unrealized appreciation on investments	18,662,701	23,881,138
Net change in unrealized (appreciation) on credit facility	(6,604,625)	(5,838,914)
Net increase in net assets resulting from operations	25,522,223	8,676,247
Distributions to stockholders:		
Distributions from net investment income	(9,418,227)	(6,452,193)
Capital Share Transactions:		
Issuance of shares of common stock, net of offering costs		3,344,000
Reinvestment of dividends	711,743	
Total increase in net assets	16,815,739	5,568,054
Net Assets:		
Beginning of period	386,575,223	300,580,268
End of period	\$ 403,390,962	\$ 306,148,322
Undistributed net investment income, at period end	3,672,171	2,675,930
Capital Share Activity:		
Public offering		440,000
Reinvestment of dividends	65,178	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 25,522,223	\$ 8,676,247
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in unrealized appreciation on investments	(18,662,701)	(23,881,138)
Net change in unrealized appreciation on credit facility	6,604,625	5,838,914
Net realized (gain) loss on investments	(2,293,362)	16,603,865
Net accretion of discount and amortization of premium	(1,214,474)	(1,271,930)
Purchase of investments	(99,940,829)	(50,481,259)
Payment-in-kind interest	(2,968,067)	(1,159,733)
Proceeds from dispositions of investments	85,535,428	16,808,942
Decrease (Increase) in interest receivable	5,457,094	(175,073)
Decrease in receivables for investments sold	30,254,774	2,680,116
Decrease in prepaid expenses and other assets	255,290	163,284
Decrease in payables for investments purchased	(52,785,000)	(19,489,525)
(Decrease) Increase in unfunded investments	(3,623,003)	123,633
Increase (Decrease) in interest payable on credit facility and/or SBA debentures	52,175	(10,954)
Increase in management fee payable	211,778	304,543
Increase in performance-based incentive fee payable	553,983	301,289
(Decrease) in accrued expenses	(221,836)	(115,217)
Net cash used for operating activities	(27,261,902)	(45,083,996)
Cash flows from financing activities:		
Issuance of shares of common stock, net of offering costs		3,344,000
Distributions paid to stockholders, net of dividends reinvested	(8,689,537)	(5,056,505)
Borrowings under SBA debentures (See Note 10)	15,500,000	
Capitalized borrowing costs	(1,040,875)	
Borrowings under credit facility (See Note 10)	136,000,000	51,300,000
Repayments under credit facility (See Note 10)	(113,300,000)	(30,700,000)
Net cash provided by financing activities	28,469,588	18,887,495
Net increase (decrease) in cash and cash equivalents	1,207,686	(26,196,501)
Cash and cash equivalents, beginning of period	1,814,451	33,247,666
Cash and cash equivalents, end of period	\$ 3,022,137	\$ 7,051,165
Supplemental disclosure of cash flow information and non-cash financing activity (See Note 5):		
Interest paid	\$ 931,687	\$ 762,328
Dividends reinvested	\$ 711,743	\$

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2010

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par/Shares	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 168.7%⁽²⁾							
First Lien Secured Debt 67.4%							
Affinity Group Holdings, Inc. ⁽⁵⁾	12/01/2016	Consumer Products	11.50%		\$ 12,000,000	\$ 11,751,046	\$ 11,790,000
Airvana Networks Solution, Inc.	08/27/2014	Communications	11.00%	L+900 ⁽⁸⁾	11,833,333	11,614,917	11,853,060
Birch Communications, Inc.	06/21/2015	Telecommunications	15.00%	L+1,300 ⁽⁸⁾	20,000,000	19,444,282	20,220,000
CEVA Group PLC ^{(5),(10)}	10/01/2016	Logistics	11.63%		7,500,000	7,310,855	8,231,250
CEVA Group PLC ^{(5),(10)}	04/01/2018	Logistics	11.50%		1,000,000	988,048	1,080,000
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 ⁽⁸⁾	9,062,500	8,603,111	9,141,797
Columbus International, Inc. ^{(5),(10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,100,000
Covad Communications Group, Inc. ⁽⁵⁾	11/03/2015	Telecommunications	12.00%	L+1,000 ⁽⁸⁾	7,000,000	6,862,322	7,017,500
EnviroSolutions, Inc. ⁽⁹⁾	07/29/2013	Environmental Services			6,666,666	6,666,666	6,666,666
Fairway Group Acquisition Company	10/01/2014	Grocery	12.00%	L+950 ⁽⁸⁾	11,875,057	11,633,164	11,875,057
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.56%	L+225	8,730,000	8,730,000	3,579,300
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	24,812,500	24,355,557	25,110,250
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.54%	L+225	9,726,351	9,726,351	7,878,345
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675 ⁽⁸⁾	18,952,500	17,866,534	18,573,450
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,498,156	26,313,158
Penton Media, Inc.	08/01/2014	Other Media	5.00% ⁽⁶⁾	L+400 ⁽⁸⁾	9,827,611	8,505,772	7,763,812
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+650 ⁽⁸⁾	53,441	53,441	52,052
Questex Media Group LLC ⁽⁹⁾	12/16/2012	Other Media			213,764	213,764	208,206
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 ⁽⁸⁾	29,500,000	28,776,580	29,930,199
Three Rivers Pharmaceutical, L.L.C.	10/22/2011	Healthcare, Education and Childcare	15.00%	L+1,300 ⁽⁸⁾	30,000,000	27,648,145	30,900,000
VPSI, Inc.	12/22/2015	Personal Transportation	12.00%	L+1,000 ⁽⁸⁾	18,333,333	18,029,449	18,027,166

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

Yonkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%	4,500,000	4,384,196	4,955,625
-------------------------------------	------------	------------------------------------	--------	-----------	-----------	-----------

Total First Lien Secured Debt					268,662,356	272,266,893
--	--	--	--	--	-------------	-------------

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S-38

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2010****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽⁴⁾	Par/Shares	Cost	Fair Value⁽³⁾
Second Lien Secured Debt 23.3%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.31%	L+600	\$ 13,600,000	\$ 13,234,699	\$ 12,206,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.31%	L+700	12,000,000	11,787,606	10,659,996
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600 ⁽⁸⁾	6,237,317	6,237,317	6,087,621
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% ⁽⁶⁾	L+700 ⁽⁸⁾	2,570,357	2,570,357	2,594,775
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 ⁽⁸⁾	3,211,210	3,211,210	2,719,894
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% ⁽⁶⁾	L+750 ⁽⁸⁾	1,827,075	1,827,075	1,458,006
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,893,750
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.04% ⁽⁶⁾	L+575	18,500,000	16,414,348	17,482,500
Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	7.26% ⁽⁶⁾	L+700	22,500,000	22,490,659	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.31% ⁽⁶⁾	L+600	7,811,488	7,362,858	7,245,155
Total Second Lien Secured Debt						95,136,129	93,847,697
Subordinated Debt/Corporate Notes 64.4%							
Affinion Group Holdings, Inc. ⁽⁵⁾	11/15/2015	Consumer Products	11.63%		10,000,000	9,861,938	10,375,000
Aquilex Holdings, LLC ⁽⁵⁾	12/15/2016	Diversified / Conglomerate Services	11.13%		18,885,000	18,395,462	19,121,063
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% ⁽⁶⁾		8,109,468	7,976,881	8,170,289
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% ⁽⁶⁾		20,824,496	20,484,443	21,522,117
Da-Lite Screen Company, Inc. ⁽⁵⁾	04/01/2015	Home and Office Furnishings, Housewares and Durable Consumer Products	12.50%		25,000,000	24,407,004	27,375,000
Escort Inc.	06/01/2016	Electronics	14.75%		24,055,000	23,398,381	24,055,000
i2 Holdings Ltd. ⁽¹⁰⁾	06/06/2014	Aerospace and Defense	14.75% ⁽⁶⁾		23,444,680	23,147,686	23,608,793
Learning Care Group (US) Inc.	06/30/2016	Education	15.00% ⁽⁶⁾		4,248,355	3,513,586	3,908,487
MailSouth, Inc.	05/15/2018	Printing and Publishing	14.50%		15,000,000	14,550,234	15,000,000
MedQuist, Inc.	10/15/2016	Business Services	13.00% ⁽⁶⁾		19,000,000	18,442,542	18,620,000
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	14.02% ⁽⁶⁾		16,785,000	16,368,574	16,785,000
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		10,000,000	9,093,958	9,325,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% ⁽⁶⁾		11,795,903	11,444,373	11,913,862
UP Support Services, Inc. (formerly UP Acquisition Sub Inc.)	02/08/2015	Oil and Gas	17.00% ⁽⁶⁾		22,918,640	22,488,701	22,918,640
Veritext Corp.	12/31/2015	Business Services	14.00% ⁽⁶⁾		15,000,000	14,648,375	15,000,000
Veritext Corp. ⁽⁹⁾	12/31/2012	Business Services			12,000,000	11,700,000	12,000,000
Total Subordinated Debt/Corporate Notes						249,922,138	259,698,251

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S-39

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2010****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽⁴⁾	Par/Shares	Cost	Fair Value(3)
Preferred Equity/Partnership Interests 3.2%							
AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			319	\$ 318,896	\$
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		834	833,997	1,140,554
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services	9.00%		144,376	144,376	152,344
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense	12.00%		4,137,240	4,137,240	4,886,133
PAS Tech Holdings, Inc. Series A-1		Aerospace and Defense	8.00%		20,000	1,980,000	2,000,000
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,517,380
Universal Pegasus International, Inc. (formerly UP Holdings Inc.)		Oil and Gas	8.00%		101,175	2,738,050	578,136
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation	8.00%		1,824,167	1,824,167	1,824,167
Total Preferred Equity/Partnership Interests						13,974,552	12,784,534
Common Equity/Warrants/Partnership Interests 10.4%							
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			1,333	3,000,000	3,000,000
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,702	17,020	456,745
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	3,200,000	8,859,057
EnviroSolutions, Inc.		Environmental Services			24,375	1,506,075	1,941,369
EnviroSolutions, Inc. (Warrants)		Environmental Services			49,005	3,027,906	3,902,557
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense			457,322	454,030	
Kadmon Holdings, L.L.C., Class A (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			10,799	1,236,832	1,492,826
Kadmon Holdings, L.L.C., Class D (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			10,799	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Education			1,267	779,920	613,467
Magnum Hunter Resources Corporation		Oil and Gas			1,055,932	2,464,999	7,644,948
PAS Tech Holdings, Inc.		Aerospace and Defense			20,000	20,000	
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,167	1,487,339
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		182,607
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	957,408
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,111,588	4,363,330
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,843	1,421,292
Universal Pegasus International, Inc. (formerly UP Holdings Inc.)		Oil and Gas			110,742	1,107	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation			9,166	9,166	9,166
VText Holdings, Inc. (Veritext Corp.)		Business Services			35,526	4,050,000	4,752,486

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

Total Common Equity/Warrants/Partnership Interests	24,252,860	42,113,404
Investments in Non-Controlled, Non-Affiliated Portfolio Companies	\$ 651,948,035	\$ 680,710,779

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S-40

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2010****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽⁴⁾	Par/Shares	Cost	Fair Value⁽³⁾
Investments in Non-Controlled, Affiliated Portfolio Companies 3.9% ^{(1),(2)}							
Second Lien Secured Debt 1.9%							
Performance, Inc.	01/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	7.50%	L+650 ⁽⁸⁾	\$ 8,000,000	\$ 8,000,000	\$ 7,604,000
Subordinated Debt/Corporate Notes 1.5%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% ⁽⁶⁾		6,067,482	5,891,671	5,976,470
Common Equity/Partnership Interest 0.5% ⁽⁷⁾							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			37,500	3,750,000	1,977,061
Investments in Non-Controlled, Affiliated Portfolio Companies						17,641,671	15,557,531
Investments in Controlled, Affiliated Portfolio Companies 2.0% ^{(1),(2)}							
First Lien Secured Debt 1.3%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		4,800,000	4,800,000	5,352,000
Subordinated Debt/Corporate Notes 0.3%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		1,200,000	1,200,000	1,142,398
Preferred Equity 0.4% ⁽⁷⁾							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,505,602
Common Equity 0.0% ⁽⁷⁾							
SuttonPark Holdings, Inc.		Business Services			100	100	100
Investments in Controlled, Affiliated Portfolio Companies						8,000,100	8,000,100
Total Investments 174.6%						677,589,806	704,268,410
Cash and Cash Equivalents 0.7%						3,022,137	3,022,137
Total Investments and Cash and Cash Equivalents 175.3%						\$ 680,611,943	\$ 707,290,547

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

Liabilities in Excess of Other Assets (75.3%)	(303,899,585)
Net Assets 100.0%	\$ 403,390,962

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities.
- (3) Valued based on our accounting policy (see Note 2 to our consolidated financial statements).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offer Rate (LIBOR or L) or Prime Rate (Prime or P).

S-41

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2010

(Unaudited)

- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, usually to qualified institutional buyers.
- (6) Coupon is payable in cash and/or payable in-kind (PIK).
- (7) Non-income producing securities.
- (8) Coupon is subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the United States.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S-42

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2010**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽⁴⁾	Par/Shares	Cost	Fair Value⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 165.9%^{(1),(2)}							
First Lien Secured Debt 59.3%							
Airvana Networks Solution, Inc.	08/27/2014	Communications	11.00%	L+900 ⁽⁸⁾	\$ 13,583,333	\$ 13,316,337	\$ 13,447,500
Birch Communications, Inc.	06/21/2015	Telecommunications	15.00%	L+1,300 ⁽⁸⁾	16,363,636	15,786,257	16,363,636
Birch Communications, Inc. ⁽⁹⁾	01/31/2011	Telecommunications			3,636,364	3,636,364	3,636,364
CEVA Group PLC ^{(5),(10)}	10/01/2016	Logistics	11.63%		7,500,000	7,305,603	7,912,500
CEVA Group PLC ^{(5),(10)}	04/01/2018	Logistics	11.50%		1,000,000	987,774	1,045,000
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 ⁽⁸⁾	9,250,000	8,765,468	9,296,250
Columbus International, Inc. ^{(5),(10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,048,000
EnviroSolutions, Inc. ⁽⁹⁾	07/29/2013	Environmental Services			6,666,666	6,666,666	6,666,666
Fairway Group Acquisition Company	10/01/2014	Grocery	12.00%	L+950 P+850 ⁽⁸⁾	11,905,025	11,650,744	11,845,500
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.62%	L+225	8,752,500	8,752,500	3,894,863
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	24,875,000	24,402,321	24,875,000
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.71%	L+225	9,744,595	9,744,595	7,874,850
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	L+675 ⁽⁸⁾	19,000,000	17,866,826	18,240,000
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,631	25,481,512	26,052,631
Mattress Holding Corp.	01/18/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.54%	L+225	3,844,931	3,844,931	3,345,090
Penton Media, Inc.	08/01/2014	Other Media	5.00% ⁽⁶⁾	L+400 ⁽⁸⁾	9,829,738	8,432,037	6,995,500
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+650 ⁽⁸⁾	66,801	66,801	64,263
Questex Media Group LLC ⁽⁹⁾	12/16/2012	Other Media			200,404	200,404	192,789
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 ⁽⁸⁾	29,500,000	28,756,343	29,702,813
Three Rivers Pharmaceutical, L.L.C.	10/22/2011	Healthcare, Education and Childcare	15.25%	L+1,300 P+1,200 ⁽⁸⁾	25,000,000	21,861,968	21,861,968
Yonkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,381,967	4,882,500
Total First Lien Secured Debt						231,907,418	229,243,683

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2010**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽⁴⁾	Par/Shares	Cost	Fair Value⁽³⁾
Second Lien Secured Debt 38.6%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.43%	L+600	\$ 13,600,000	\$ 13,216,845	\$ 11,696,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.39%	L+700	12,000,000	11,776,589	10,410,000
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600 ⁽⁸⁾	6,237,317	6,237,317	5,950,400
Generics International (U.S.), Inc.	04/30/2015	Healthcare, Education and Childcare	7.79%	L+750	12,000,000	11,958,469	11,940,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% ⁽⁶⁾	L+700 ⁽⁸⁾	2,570,357	2,570,357	2,594,775
Mohegan Tribal Gaming Authority ⁽⁵⁾	11/01/2017	Hotels, Motels, Inns and Gaming	11.50%		5,000,000	4,825,762	4,475,000
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 ⁽⁸⁾	3,219,319	3,219,319	2,675,254
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% ⁽⁶⁾	L+850 ⁽⁸⁾	1,773,703	1,773,703	1,349,788
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,600,000
Saint Acquisition Corp. ⁽⁵⁾	05/15/2015	Transportation	8.13%	L+775	10,000,000	9,950,907	9,325,000
Saint Acquisition Corp. ⁽⁵⁾	05/15/2017	Transportation	12.50%		19,000,000	17,039,991	19,118,750
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.05% ⁽⁶⁾	L+575	21,500,000	19,211,412	19,887,500
Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	7.26% ⁽⁶⁾	L+700	22,500,000	22,490,129	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.29% ⁽⁶⁾	L+600	17,811,488	17,341,134	16,564,684
Total Second Lien Secured Debt						151,611,934	149,087,151
Subordinated Debt/Corporate Notes 56.1%							
Affinion Group Holdings, Inc. ⁽⁵⁾	11/15/2015	Consumer Products	11.63%		10,000,000	9,855,000	9,855,000
Aquilex Holdings, LLC ⁽⁵⁾	12/15/2016	Diversified / Conglomerate Services	11.13%		18,885,000	18,380,337	18,696,150
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% ⁽⁶⁾		8,109,468	7,973,429	8,170,289
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% ⁽⁶⁾		20,720,892	20,359,932	21,425,401
Da-Lite Screen Company, Inc. ⁽⁵⁾	04/01/2015	Home and Office Furnishings, Housewares and Durable Consumer Products	12.50%		25,000,000	24,379,843	25,625,000
i2 Holdings Ltd. ⁽¹⁰⁾	06/06/2014	Aerospace and Defense	14.75% ⁽⁶⁾		23,283,292	22,970,124	23,283,292
Learning Care Group (US) Inc.	06/30/2016	Education	15.00% ⁽⁶⁾		3,947,368	3,194,611	3,592,105
MedQuist, Inc.	10/15/2016	Business Services	13.00% ⁽⁶⁾		19,000,000	18,430,000	18,430,000
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		10,000,000	9,055,731	7,900,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% ⁽⁶⁾		11,721,019	11,361,858	11,838,229
Trizetto Group, Inc.	10/01/2016	Insurance	13.50% ⁽⁶⁾		20,501,960	20,331,704	21,117,018
UP Acquisition Sub Inc.	02/08/2015	Oil and Gas	15.50% ⁽⁶⁾		21,098,000	20,642,507	20,148,590
Veritext Corp.	12/31/2015	Business Services	14.00% ⁽⁶⁾		15,000,000	14,636,487	15,000,000
Veritext Corp. ⁽⁹⁾	12/31/2012	Business Services			12,000,000	11,700,000	12,000,000
Total Subordinated Debt/Corporate Notes						213,271,563	217,081,074

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S-44

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2010**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽⁴⁾	Par/Shares	Cost	Fair Value⁽³⁾
Preferred Equity/Partnership Interests 2.0%							
AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			319	\$ 318,896	\$
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		797	797,288	1,070,352
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services	9.00%		144,375	144,376	148,909
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense	12.00%		4,137,240	4,137,240	3,869,263
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,495,885
UP Holdings Inc., Class A-1 (UP Acquisitions Sub Inc.)		Oil and Gas	8.00%		91,608	2,499,066	495,851
Total Preferred Equity/Partnership Interests						9,894,692	7,766,080
Common Equity/Warrants/Partnership Interests 9.9%							
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			1,333	3,000,000	3,000,000
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,627	16,271	387,012
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	3,200,000	7,987,755
EnviroSolutions, Inc.		Environmental Services			24,375	1,506,076	1,998,008
EnviroSolutions, Inc. (Warrants)		Environmental Services			49,005	3,027,906	4,016,429
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense			457,322	454,030	
Kadmon Holdings, L.L.C., Class A (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			8,999	1,780,693	1,780,693
Kadmon Holdings, L.L.C., Class D (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			8,999	857,339	857,339
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Education			1,267	779,920	633,308
Magnum Hunter Resources Corporation		Oil and Gas			1,055,932	2,464,999	4,350,440
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,167	1,081,683
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		132,803
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	973,875
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C)		Cargo Transport			137,923	2,111,588	4,589,906
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,843	1,688,629
UP Holdings Inc. (UP Acquisitions Sub Inc.)		Oil and Gas			91,608	916	
VText Holdings, Inc.		Business Services			35,526	4,050,000	4,634,758
Total Common Equity/Warrants/Partnership Interests						24,595,148	38,112,638

Investments in Non-Controlled, Non-Affiliated Portfolio Companies	\$ 631,280,755	\$ 641,290,626
--	----------------	----------------

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

S-45

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2010

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par/Shares	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Affiliated Portfolio Companies 4.0% ^{(1),(2)}							
Second Lien Secured Debt 2.0%							
Performance, Inc.	01/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	7.50%	L+650 ⁽⁸⁾	\$ 8,000,000	\$ 8,000,000	\$ 7,584,000
Subordinated Debt/Corporate Notes 1.5%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% ⁽⁶⁾		5,848,176	5,677,648	5,745,832
Common Equity/Partnership Interest 0.5%							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			37,500	3,750,000	2,103,848
Investments in Non-Controlled, Affiliated Portfolio Company						17,427,648	15,433,680
Investments in Controlled, Affiliated Portfolio Companies 2.1% ^{(1),(2)}							
First Lien Secured Debt 1.4%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		4,800,000	4,800,000	5,352,000
Subordinated Debt/Corporate Notes 0.3%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		1,200,000	1,200,000	1,142,398
Preferred Equity 0.4%							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,505,602
Common Equity 0.0%							
SuttonPark Holdings, Inc.		Business Services			100	100	100
Investments in Controlled, Affiliated Portfolio Company						8,000,100	8,000,100
Total Investments 172.0%						656,708,503	664,724,406
Cash and Cash Equivalents 0.5%						1,814,451	1,814,451
Total Investments and Cash and Cash Equivalents 172.5%						\$ 658,522,954	\$ 666,538,857
Liabilities in Excess of Other Assets (72.5%)							(279,963,634)
Net Assets 100.0%							\$ 386,575,223

(1)

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.

- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities.
- (3) Valued based on our accounting policy (see Note 2 to our consolidated financial statements).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or Prime Rate.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, usually to qualified institutional buyers.
- (6) Coupon is payable in cash and/or PIK.
- (7) Non-income producing securities.
- (8) Coupon is subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the United States.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

Except where the context suggests otherwise, the terms we, us, our or PennantPark Investment refer to PennantPark Investment Corporation.

References to our portfolio and investments include investments made through our consolidated SBIC subsidiary.

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation on January 11, 2007. PennantPark Investment is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 (the 1940 Act). PennantPark Investment's objective is to generate both current income and capital appreciation through debt and equity investments. PennantPark Investment invests primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and equity investments.

On April 24, 2007, PennantPark Investment closed its initial public offering and its common stock trades on the NASDAQ Global Select Market under the symbol PNNT . We entered into an investment management agreement (the Investment Management Agreement) with PennantPark Investment Advisers, LLC (the Investment Adviser or PennantPark Investment Advisers), an external adviser that manages our day-to-day operations. We also entered into an administration agreement (the Administration Agreement) with PennantPark Investment Administration, LLC (the Administrator or PennantPark Investment Administration) that provides the administrative services necessary for us to operate.

PennantPark Investment, through the Investment Adviser, manages day-to-day operations of and provides investment advisory services to PennantPark SBIC LP (SBIC LP) under a separate investment management agreement with us. PennantPark Investment, through the Administrator, also provides similar services to SBIC LP and our controlled affiliate SuttonPark Holdings, Inc. and its subsidiaries (SPH) under separate administration agreements with us. See Note 3 for more information.

SBIC LP and its general partner, SBIC GP, LLC (collectively our SBIC), were organized in Delaware as a limited partnership and a limited liability company, respectively, on May 7, 2010 and began operations on June 11, 2010. SBIC LP received a license from the Small Business Administration (SBA) to operate as a Small Business Investment Company (SBIC) effective July 30, 2010 under Section 301(c) of the Small Business Investment Act of 1958 (the 1958 Act). Our SBIC subsidiaries are consolidated wholly owned subsidiaries of PennantPark Investment. The SBIC LP's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP generally invests with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

PennantPark Investment completed its initial public offering of common stock in 2007 and issued 21.0 million shares raising \$294.1 million in net proceeds. Since our initial public offering, we have sold 15.1 million shares of common stock through follow-on public offerings, resulting in net proceeds of \$134.2 million.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of our consolidated assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reported period. Actual results could differ from these estimates. We

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

have reclassified certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the Accounting Standards Codification (ASC) serve as a single source of accounting literature and are not intended to change accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the consolidated financial statements are issued.

Our consolidated financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X under the Exchange Act, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

The significant accounting policies consistently followed by PennantPark Investment and our SBIC are:

(a) Investment Valuations

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 independent pricing services or at the bid prices obtained from at least two broker/dealers if available, otherwise 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. First lien secured debt, subordinated debt and other debt investments with maturities greater than 60 days generally are valued by an independent pricing service or at the bid prices from at least two broker/dealers (if available, otherwise by a principal market maker or a primary market dealer). Investments, of sufficient credit quality, purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value.

We expect that there will not be readily available market values for most, if not all, of the investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy, described herein, and a consistently applied valuation process. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. 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. See Note 5 to the consolidated financial statements.

With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, 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 our Investment Adviser responsible for the portfolio investment;

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

- (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 the investment. The independent valuation firms review management's preliminary valuations in light of their 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 these valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

(b) Security Transactions, Revenue Recognition, and Realized/Unrealized Gains or Losses

Security transactions are recorded on a trade-date basis. 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 and credit facility values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectable. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount, market discount or premium and deferred financing costs are capitalized and we then accreted or amortized such amounts using the effective interest method as interest income or interest expense as it relates to our deferred financing costs. We record prepayment premiums on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

(c) Income Taxes

Since May 1, 2007, PennantPark Investment has complied with the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended, (the Code), and expects to be subject to tax as a regulated investment company (RIC). As a RIC, PennantPark Investment accounts for income taxes using the asset

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes were provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon PennantPark Investment's qualification and election to be subject to tax as a RIC, we do not anticipate paying any material level of federal income taxes in the future. Although we are subject to tax as a RIC, we elected to retain a portion of our calendar year income and incurred an excise tax of \$0.1 million and \$0.1 million for the three months ended December 31, 2010 and 2009, respectively. PennantPark Investment recognizes in its consolidated financial statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. We did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our tax returns for each of our inception-to-date federal tax years remain subject to examination by the Internal Revenue Service.

Book and tax basis differences relating to permanent book and tax differences are reclassified among PennantPark Investment's capital accounts, as appropriate. Additionally, the character of income and gain distributions are determined in accordance with income tax regulations that may differ from U.S. generally accepted accounting principles.

(d) Dividends, Distributions, and Capital Transactions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a dividend is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually.

Capital transactions, in connection with our dividend reinvestment plan or through offerings of our common stock, are recorded when issued and offering costs are charged as a reduction of capital upon issuance of our common stock.

(e) Consolidation

As permitted under Regulation S-X and the AICPA Audit and Accounting Guide for Investment Companies, PennantPark Investment will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we have consolidated the results of our SBIC in our consolidated financial statements.

(f) New Accounting Pronouncements and Accounting Standards Updates (ASU)

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06), to clarify and amend ASC 820-10. In particular, it requires that entities disclose on a gross basis purchases, sales, issuances, and settlements within the Level 3 fair value roll-forward. ASU 2010-06 clarifies existing fair value disclosures about the level of disaggregation as well as inputs and valuation techniques for both recurring and nonrecurring fair value measurements that fall into Level 2 or 3. The new disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We have adopted the disclosures regarding the disaggregation of purchases, sales and settlements in the roll-forward of activity in Level 3 fair value measurements and it did not have a material impact on our consolidated financial statements.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2010****(Unaudited)****3. AGREEMENTS**

PennantPark Investment's Investment Management Agreement with the Investment Adviser was re-approved by our board of directors, including a majority of our independent directors of PennantPark Investment, in February 2011. Under this agreement 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. The SBIC LP investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. 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).

The base management fee is calculated at an annual rate of 2.00% on PennantPark Investment's gross assets (net of U.S. Treasury Bills and/or temporary draws on the credit facility or average adjusted gross assets, if any, see Note 10). The base management fee has been 2.00% since March 31, 2008 and is payable quarterly in arrears. The base management fee is calculated based on the average value of adjusted gross 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. For the three months ended December 31, 2010 and 2009, the Investment Adviser earned a net base management fee of \$3.5 million and \$2.5 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on PennantPark Investment's 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 received from portfolio companies accrued during the calendar quarter, minus PennantPark Investment's operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and distribution 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 deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income 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 PennantPark Investment's net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). PennantPark Investment pays the Investment Adviser an incentive fee with respect to PennantPark Investment's Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which PennantPark Investment's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of PennantPark Investment's 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 rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of PennantPark Investment's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

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 Management Agreement, as of the termination date), commencing on December 31, 2007, and equals 20.0% of PennantPark Investment's realized capital gains, if any, on a

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

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 three months ended December 31, 2010 and 2009, the Investment Adviser earned an incentive fee of \$2.8 million and \$1.8 million, respectively, from us.

PennantPark Investment's Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2011. Under this agreement PennantPark Investment Administration provides administrative services for PennantPark Investment. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement with us. For providing these services, facilities and personnel, PennantPark Investment reimburses the Administrator for PennantPark Investment's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and PennantPark Investment's allocable portion of the costs of the compensation and related expenses for its chief compliance officer, chief financial officer and their respective staffs. The Administrator also offers, on PennantPark Investment's behalf, managerial assistance to portfolio companies to which PennantPark Investment is required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Statement of Operations. For the three months ended December 31, 2010 and 2009, the Investment Adviser and Administrator, collectively, were reimbursed \$0.6 million and \$0.3 million, respectively, from us, including expenses it incurred on behalf of the Administrator, for services described above.

PennantPark Investment entered into an administration agreement with its controlled affiliate SuttonPark Holdings, Inc. and its subsidiaries (SPH). Under the administration agreement with SPH, or the SPH Administration Agreement, PennantPark Investment, through the Administrator, furnishes SPH with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Additionally, the Administrator performs or oversees the performance of SPH's required administrative services, which include, among other things, maintaining financial records, preparing financial reports and filing of tax returns. Payments under the SPH Administration Agreement are equal to an amount based upon SPH's allocable portion of the Administrator's overhead in performing its obligations under the SPH Administration Agreement, including rent and allocable portion of the cost of compensation and related expenses of our chief financial officer and their respective staffs. For the three months ended December 31, 2010, the PennantPark Investment was reimbursed \$0.1 million for the services described above.

4. INVESTMENTS

Purchases of long-term investments including PIK for the three months ended December 31, 2010 and 2009 totaled \$102.9 million and \$51.6 million, respectively. Sales and repayments of long-term investments for the three months ended December 31, 2010 and 2009 totaled \$85.5 million and \$16.8 million, respectively.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2010****(Unaudited)**

Investments and cash and cash equivalents consisted of the following:

	December 31, 2010		September 30, 2010	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 273,462,356	\$ 277,618,893	\$ 236,707,418	\$ 234,595,683
Second lien	103,136,129	101,451,697	159,611,934	156,671,151
Subordinated debt / corporate notes	257,013,809	266,817,119	220,149,211	223,969,304
Preferred equity	15,974,552	14,290,136	11,894,692	9,271,682
Common equity	28,002,960	44,090,565	28,345,248	40,216,586
Total Investments	677,589,806	704,268,410	656,708,503	664,724,406
Cash and cash equivalents	3,022,137	3,022,137	1,814,451	1,814,451
Total Investments and cash and cash equivalents	\$ 680,611,943	\$ 707,290,547	\$ 658,522,954	\$ 666,538,857

The table below describes investments by industry classification and enumerates the percentage, by market value, of the total portfolio assets (excluding cash and cash equivalents) in such industries as of December 31, 2010 and September 30, 2010.

Industry Classification	December 31, 2010	September 30, 2010
Business Services	14%	15%
Aerospace and Defense	8	6
Healthcare, Education & Childcare	7	8
Chemicals, Plastic and Rubber	6	6
Hotels, Motels, Inns and Gaming	6	7
Printing and Publishing	6	4
Home and Office Furnishings, Housewares, and Durable Consumer Products	5	6
Education	4	5
Oil and Gas	4	4
Telecommunications	4	3
Buildings and Real Estate	3	3
Communications	3	4
Consumer Products	3	1
Diversified/Conglomerate Services	3	3
Electronics	3	
Energy / Utilities	3	3
Environmental Services	3	3
Transportation	3	4
Grocery	2	2
Leisure, Amusement, Motion Picture, Entertainment	2	2
Logistics	2	1

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

Other Media	2	2
Insurance	1	4
Other	3	4
Total	100%	100%

S-53

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of PennantPark Investment. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on the best information available at the time.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

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. Generally, most of our investments 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 was available.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. As of December 31, 2010, the observability of the valuation inputs has resulted in a reclassification from Level 3 to Level 2 during the period.

In addition to using the above inputs in cash and cash equivalents, investments and long-term credit facility valuations, PennantPark Investment employs the valuation policy approved by its board of directors that is consistent with ASC 820 (See Note 2 to our consolidated financial statements). Consistent with our valuation policy, PennantPark Investment evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2010****(Unaudited)**

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt 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 non-public investments are included in Level 3 of the fair value hierarchy.

At December 31, 2010 and September 30, 2010, our cash and cash equivalents, investments and our long-term credit facility were categorized as follows in the fair value hierarchy for ASC 820 purposes.

December 31, 2010

Description	Fair Value	Level 1	Level 2	Level 3
Loan and debt investments	\$ 645,887,709	\$	\$ 39,546,063	\$ 606,341,646
Equity investments	58,380,701	7,644,948		50,735,753
Total Investments	704,268,410	7,644,948	39,546,063	657,077,399
Cash and Cash Equivalents	3,022,137	3,022,137		
Total Investments and cash equivalents	707,290,547	10,667,085	39,546,063	657,077,399
Long-Term Credit Facility	\$ (248,445,750)	\$	\$	\$ (248,445,750)

September 30, 2010

Description	Fair Value	Level 1	Level 2	Level 3
Loan and debt investments	\$ 615,236,138	\$	\$	\$ 615,236,138
Equity investments	49,488,268	4,350,440		45,137,828
Total Investments	664,724,406	4,350,440		660,373,966
Cash and Cash Equivalents	1,814,451	1,814,451		
Total Investments and cash equivalents	666,538,857	6,164,891		660,373,966
Long-Term Credit Facility	\$ (213,941,125)	\$	\$	\$ (213,941,125)

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2010****(Unaudited)**

The following tables show a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3) for the three months ended December 31, 2010 and 2009:

Period Ended December 31, 2010

Description	Loan and debt investments	Equity investments	Totals
Beginning Balance, September 30, 2010	\$ 615,236,138	\$ 45,137,828	\$ 660,373,966
Realized gains	2,293,343		2,293,343
Unrealized appreciation	13,507,841	1,860,352	15,368,193
Purchases, PIK and net discount accretion	100,385,797	3,737,573	104,123,370
Sales / repayments	(85,535,410)		(85,535,410)
Non-cash exchanges			
Transfers out of Level 3	(39,546,063)		(39,546,063)
Ending Balance, December 31, 2010	\$ 606,341,646	\$ 50,735,753	\$ 657,077,399
Net change in unrealized appreciation for the year reported within the net change in unrealized appreciation on investments in our Statement of Operations attributable to our Level 3 assets still held at the reporting date.	\$ 13,028,376	\$ 1,860,352	\$ 14,888,728

Period Ended December 31, 2009

Description	Loan and debt investments	Equity investments	Totals
Beginning Balance, September 30, 2009	\$ 442,128,049	\$ 27,632,024	\$ 469,760,073
Realized gains (losses)	(13,598,702)	(3,005,163)	(16,603,865)
Unrealized appreciation	21,998,720	1,882,418	23,881,138
Purchases, PIK and net discount accretion	52,229,864	683,058	52,912,922
Sales / repayments	(16,808,942)		(16,808,942)
Non-cash exchanges	(1,306,167)	1,306,167	
Transfers in or out of Level 3			
Ending Balance, December 31, 2009	\$ 484,642,822	\$ 28,498,504	\$ 513,141,326
Net change in unrealized appreciation (depreciation) for the year reported within the net change in unrealized depreciation on investments in our Statement of Operations attributable to our Level 3 assets still held at the reporting date.	\$ 5,856,098	\$ (1,122,745)	\$ 4,733,353

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2010****(Unaudited)**

The following tables show a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the three months ended December 31, 2010 and 2009, respectively. There were no temporary draws outstanding at December 31, 2010 and 2009, respectively.

Period Ended December 31, 2010

	Carrying/ Fair Value
Long-Term Credit Facility	
Beginning balance, September 30, 2010 (Cost \$227,900,000)	\$ 213,941,125
Total unrealized appreciation included in earnings	6,604,625
Borrowings	95,400,000
Repayments	(67,500,000)
Transfers in/out of Level 3	
Ending Balance, December 31, 2010 (Cost \$255,800,000)	248,445,750

Period Ended December 31, 2009

	Carrying/ Fair Value
Long-Term Credit Facility	
Beginning balance, September 30, 2009 (Cost \$218,100,000)	\$ 168,475,380
Total unrealized appreciation included in earnings	5,838,914
Borrowings	47,300,000
Repayments	(19,700,000)
Transfers in/out of Level 3	
Ending Balance, December 31, 2009 (Cost \$245,700,000)	\$ 201,914,294

The carrying value of PennantPark Investment's financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to its long-term credit facility. PennantPark Investment elected to use the fair value option for its credit facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of a company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet and changes in fair value of the credit facility are recorded in the Statement of Operations. For the three months ended December 31, 2010 and 2009, our credit facility had a net change in unrealized appreciation of \$6.6 million and \$5.8 million, respectively. On December 31, 2010 and September 30, 2010, net unrealized depreciation on our long-term credit facility totaled \$7.4 million and \$14.0 million, respectively. PennantPark Investment uses a nationally recognized independent valuation services to measure the fair value of its credit facility in a manner consistent with the valuation process that the board of directors uses to value investments.

S-57

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2010****(Unaudited)****6. TRANSACTIONS WITH AFFILIATED COMPANIES**

An affiliated company is a company in which the PennantPark Investment has ownership of 5% or more of the portfolio company's voting securities. Advances to and distributions from affiliates are included in the consolidated statements of cash flow purchases and sales. Transactions with affiliates were as follows:

Name of Investment	Fair Value at September 30, 2010	Advances to affiliates	Distributions from affiliates	Income Received	Fair Value at December 31, 2010
Controlled Affiliates					
SuttonPark Holdings, Inc.	\$ 8,000,100	\$	\$	\$ 210,000	\$ 8,000,100
Non-Controlled Affiliates					
Performance Holdings, Inc.	15,433,680			394,306	15,557,531
Total Controlled and Non-Controlled Affiliates	\$ 23,433,780	\$	\$	\$ 604,306	\$ 23,557,631

7. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

The following information sets forth the computation of basic and diluted per share net increase in net assets resulting from operations.

Class and Year	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Numerator for net increase in net assets resulting from operations	\$ 25,522,223	\$ 8,676,247
Denominator for basic and diluted weighted average shares	36,218,991	25,751,381
Basic and diluted net increase in net assets per share resulting from operations	\$ 0.71	\$ 0.34

8. CASH EQUIVALENTS

Cash equivalents represents cash pending investment in longer-term portfolio holdings, PennantPark Investment may invest temporarily in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repo-like treasury securities. These temporary investments with maturities of 90 days or less are deemed cash equivalents and are included in the Schedule of Investments. At the end of each fiscal quarter, PennantPark Investment could take proactive steps to preserve investment flexibility for the next quarter, which is dependent upon the composition of its total assets at quarter end. PennantPark Investment may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out its positions on a net cash basis after quarter-end, temporarily drawing down on its credit facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are marked-to-market consistent with PennantPark Investment's valuation policy. As of December 31, 2010 and September 30, 2010, cash equivalents consisted of \$3.0 million and \$1.8 million in money market products, respectively.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2010****(Unaudited)****9. FINANCIAL HIGHLIGHTS**

PennantPark Investment's net assets and net asset value per share on December 31, 2010 and 2009 were \$403.4 million and \$306.1 million, respectively, and \$11.14 and \$11.86, respectively. Below are the financial highlights for the three months ended December 31, 2010 and 2009.

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Per Share Data:		
Net asset value, beginning of period	\$ 10.69	\$ 11.85
Net investment income ⁽¹⁾	0.31	0.28
Net change in realized and unrealized gain ⁽¹⁾	0.40	0.06
Net increase in net assets resulting from operations ⁽¹⁾	0.71	0.34
Dividends to stockholders ⁽¹⁾⁽²⁾	(0.26)	(0.25)
Dilutive effect of common stock issuance below net asset value		(0.08)
Net asset value, end of period	\$ 11.14	\$ 11.86
Per share market value, end of period	\$ 12.25	\$ 8.92
Total return ^{*(3)}	17.91%	12.95%
Shares outstanding at end of period	36,223,950	25,808,772

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Ratios** / Supplemental Data:		
Ratio of operating expenses to average net assets	7.67%	7.17%
Ratio of credit facility related expenses to average net assets	1.14%	1.06%
Ratio of total expenses to average net assets	8.81%	8.23%
Ratio of net investment income to average net assets	11.17%	9.37%
Net assets at end of period	\$ 403,390,962	\$ 306,148,322
Average debt outstanding	\$ 290,552,174	\$ 224,010,870
Average debt per share	\$ 8.02	\$ 8.70
Portfolio turnover ratio	49.80%	13.71%

* Not annualized for periods less than one year.

** Annualized for periods less than one year.

(1) Per share data are calculated based on the weighted average shares outstanding for the respective periods.

(2) Dividends and distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under accounting principles generally accepted in the United States of America.

- (3) Total return is based on the change in market price per share during the period and takes into account dividends and distributions, if any, reinvested in accordance with our dividend reinvestment plan.

S-59

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

10. CREDIT FACILITY AND SBA DEBENTURES

Credit Facility

On June 25, 2007, we entered into a senior secured revolving credit agreement, or 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 December 31, 2010 and September 30, 2010, there was \$255.8 million and \$233.1 million (including a \$5.2 million temporary draw) in outstanding borrowings under the credit facility, with a weighted average interest rate at the time of 1.28% and 1.34% exclusive of the fee on undrawn commitment of 0.20%, respectively.

As of December 31, 2010 and September 30, 2010, we had \$44.2 million and \$66.9 million, respectively, of unused borrowing capacity under our credit facility subject to maintenance of the applicable total assets to debt ratio of 200%, maintenance of a blended percentage of the values of our portfolio companies and restrictions on certain payments and issuance of debt.

Under the credit facility, the lenders agreed to extend credit to PennantPark Investment 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 pricing is set at 100 basis points over LIBOR. The credit facility contains customary affirmative and negative covenants, including the maintenance of a minimum stockholders' equity, the maintenance of a ratio not less than 200% of total assets (less total liabilities other than indebtedness) to total indebtedness, and restrictions on certain payments and issuance of debt. For a complete list of such covenants, see our report on Form 8-K, filed June 28, 2007 and on Form 10-Q, filed May 5, 2010. As of December 31, 2010, we were in compliance with our covenants relating to our credit facility.

SBA Debentures

SBIC LP is able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including, but not limited to, an examination by the SBA. As of December 31, 2010, we had committed to SBIC LP \$50.0 million, funded it with equity capital of \$50.0 million, had SBA debentures outstanding of \$30.0 million and a weighted average interest rate at the time of 0.96%. As of September 30, 2010, we had committed to SBIC LP \$50.0 million, funded it with equity capital of \$14.5 million, had SBA debentures outstanding of \$14.5 million and a weighted average interest rate at the time of 0.84%. SBA debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150 million, which is up to twice its potential regulatory capital. This means that SBIC LP may access the maximum borrowing if it has \$75 million in regulatory capital.

As of December 31, 2010, SBIC LP had a debenture commitment from the SBA in the amount of \$100.0 million with \$30.0 million outstanding. Of the \$30.0 million of SBA debentures outstanding, \$0.5 million is fixed for 10-years with a rate of 3.50% (inclusive of the SBA annual fee) and \$29.5 million is temporary financing currently bearing a weighted average rate of 0.92% that will reset to a market-driven rate in March 2011 and remains fixed thereafter for 10 years. As of December 31, 2010, we had \$70.0 million of unused borrowing capacity under the SBA debenture commitment.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Unaudited)

Under SBA regulations, SBIC LP is subject to regulatory requirements including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investing in certain industries, requiring capitalization thresholds and being subject to periodic audits and examinations. If our SBIC subsidiary fails to comply with applicable SBA regulations the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable and/or limit it from making new investments. These actions by the SBA would, in turn, negatively affect us because our SBIC subsidiary is wholly owned by us. As of December 31, 2010, SBIC LP was in compliance with all terms relating to our SBA debentures.

In connection with the filing of its SBA license application, PennantPark Investment applied for exemptive relief from the SEC to permit us to exclude the debt of SBIC LP from our consolidated asset coverage ratio. There can be no assurance that we will be able to capitalize SBIC LP with sufficient regulatory capital to access the maximum borrowing amount available or that we will receive an exemptive relief from the SEC with respect to the SBA-guaranteed debentures.

If we are granted exemptive relief, our ratio of total assets on a consolidated basis to outstanding indebtedness may be greater than 200% which, while providing increased investment flexibility, would also increase our exposure to risks associated with leverage.

Our net asset value may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our credit facility and SBA debentures depend 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 and SBA debentures in order to comply with certain of the covenants we made when we entered into, including the ratio of total assets to total indebtedness.

11. COMMITMENTS AND CONTINGENCIES

From time to time, PennantPark Investment, the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt investments described in the statement of assets and liabilities represent unfunded delayed draws on investments in first lien secured debt and subordinated debt investments.

12. SUBSEQUENT EVENTS

On February 1, 2011, we utilized the accordion feature of our credit facility and expanded the credit facility by \$15.0 million, bringing our total credit facility availability to \$315.0 million. On February 2, 2011, we announced that we increased our quarterly dividend to \$0.27 per share, with a record date of March 15, 2011 and a payable date of April 1, 2011.

Table of Contents

Awareness Letter of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

PennantPark Investment Corporation and Subsidiaries

Re: Securities Act Registration No. 333-150033 and Investment Company Act of 1940 File No. 814-00736.

With respect to the amendment to the subject registration statement, we acknowledge our awareness of the use therein of our report dated February 2, 2011 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

New York, New York

February 7, 2011

S-62

Table of Contents

Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

PennantPark Investment Corporation and Subsidiaries

We consent to the use of our reports dated November 17, 2010 for the PennantPark Investment Corporation and its Subsidiaries included herein and to the references to our firm under the headings "Selected Financial Data" and "Independent Registered Public Accounting Firm" in the Prospectus Supplement on Form 497 to the Registration Statement on Form N-2.

New York, New York

February 7, 2011

S-63

Table of Contents

PROSPECTUS DATED JANUARY 28, 2011

\$250,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

PennantPark Investment 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 senior secured loans, mezzanine debt, 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." We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The 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. On February 2, 2010, 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 February 2, 2011. See "Risk Factors" on page 8 and "Sales of Common Stock Below Net Asset Value" on page 39 of this prospectus for more information.

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 January 21, 2011 was \$12.20 per share and our net asset value on September 30, 2010 was \$10.69 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 in writing at 590 Madison Avenue, New York, NY 10022 or by telephone at (212) 905-1000 or on our website at www.pennantpark.com. The information on our website is not incorporated by reference into this prospectus. The SEC also maintains a website at www.sec.gov that contains such information free of charge.

Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 8 of this prospectus.

Neither the 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 January 28, 2011

Table of Contents

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.

TABLE OF CONTENTS

	Page
<u>PROSPECTUS SUMMARY</u>	1
<u>FEES AND EXPENSES</u>	7
<u>RISK FACTORS</u>	9
<u>FORWARD-LOOKING STATEMENTS</u>	32
<u>USE OF PROCEEDS</u>	33
<u>SELECTED FINANCIAL DATA</u>	34
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	36
<u>SENIOR SECURITIES</u>	49
<u>PRICE RANGE OF COMMON STOCK</u>	50
<u>SALES OF COMMON STOCK BELOW NET ASSET VALUE</u>	51
<u>DISTRIBUTIONS</u>	57
<u>BUSINESS</u>	59
<u>INVESTMENT OBJECTIVES AND POLICIES</u>	63
<u>PORTFOLIO COMPANIES</u>	71
<u>MANAGEMENT</u>	75
<u>CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS</u>	81
<u>CERTAIN RELATIONSHIPS AND TRANSACTIONS</u>	83
<u>DETERMINATION OF NET ASSET VALUE</u>	89
<u>DIVIDEND REINVESTMENT PLAN</u>	92
<u>DESCRIPTION OF OUR CAPITAL STOCK</u>	93
<u>DESCRIPTION OF OUR PREFERRED STOCK</u>	99
<u>DESCRIPTION OF OUR WARRANTS</u>	100
<u>DESCRIPTION OF OUR SUBSCRIPTION RIGHTS</u>	102
<u>DESCRIPTION OF OUR DEBT SECURITIES</u>	103
<u>REGULATION</u>	116
<u>BROKERAGE ALLOCATIONS AND OTHER PRACTICES</u>	122
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	123
<u>PLAN OF DISTRIBUTION</u>	129
<u>CUSTODIAN, TRANSFER AGENT AND TRUSTEE</u>	131
<u>LEGAL MATTERS</u>	131
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	131
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1
<u>PART C OTHER INFORMATION</u>	C-1
<u>SIGNATURES</u>	C-5

Table of Contents

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. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. The information contained in this prospectus is accurate only as of the date on the front of this prospectus and our business, financial condition, results of operations and prospectus may have changed since that date. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

Table of Contents**PROSPECTUS SUMMARY**

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. Some of the statements in this prospectus constitute forward-looking statements, which apply to both us and our consolidated SBIC subsidiary and relate to future events, future performance or financial condition. The forward-looking statements involve risks and uncertainties for both us and our consolidated SBIC subsidiary and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in this prospectus. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. In this prospectus and accompanying prospectus supplement, if any, except where the context suggests otherwise, the terms we, us, our, Company and PennantPark Investment refer to PennantPark Investment Corporation; SBIC LP and our SBIC refer to our wholly owned, consolidated Small Business Investment Company SBIC subsidiary, PennantPark SBIC LP; 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.

General Business of PennantPark Investment Corporation

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. PennantPark Investment seeks to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 to \$50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. 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.

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 has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market 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. We have used, and expect to continue to use, our credit facility, the Small Business Administration (SBA) debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Investment Corporation

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 Investment Company Act of 1940 (the 1940 Act). In addition, for tax purposes we have elected to be treated as a regulated investment company (RIC), under the Internal Revenue Code of 1986, as amended (the Code).

Table of Contents

Our wholly owned SBIC subsidiary, PennantPark SBIC LP, was organized as a Delaware limited partnership on May 7, 2010 and received a license from the SBA to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958 (the 1958 Act) on July 30, 2010. Our SBIC s objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP, generally, invests with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers to develop what we believe to be an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years, and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our inception in 2007, we have raised nearly \$800 million in debt and equity capital, and have invested over \$1 billion in 96 companies and 48 different financial sponsors.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC and the SBA. The Administrator oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See Risk Factors Risks Related to our Business and Structure.

Market Opportunity

We believe that the limited amount of capital available to the middle-market companies, coupled with the desire 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 middle-market companies have faced difficulty raising debt in private markets. Banks, finance companies, hedge funds and collateralized loan obligation (CLO) funds have withdrawn capital from the middle-market resulting in opportunities for alternative funding sources.

We believe that the current credit market dislocation for middle-market companies improves the risk-adjusted returns of our investments. In the current credit environment, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, there is less competition in our market, more conservative capital structures, higher yields and stronger covenants.

We believe there is a large pool of uninvested private equity capital 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

Table of Contents

funds generally seek to leverage their investments by combining their capital with senior secured loans and/or mezzanine debt 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 there is substantial supply of opportunities resulting from refinancing. A high volume of financings were completed between the years 2004 and 2007, which will come due in the next few years. This supply of opportunities coupled with a lack of demand offers attractive risk-adjusted returns to investors.

Competitive Advantages

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

a) Experienced Management Team

The senior professionals of the Investment Adviser have worked together for many years and average over 20 years of experience in mezzanine lending, leveraged finance, distressed debt and private equity businesses. The senior professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this extensive experience and history has resulted in a strong reputation across the capital markets.

b) Disciplined Investment Approach with Strong Value Orientation

We employ a disciplined approach in selecting investments that meet the long-standing, consistent, 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. See Business Investment Selection Criteria.

In addition to engaging in extensive due diligence, our Investment Adviser seeks to reduce risk by focusing on businesses with:

strong competitive positions;

positive cash flow that is steady and stable;

experienced management teams with strong track records;

potential for growth and viable exit strategies; and

capital structures offering appropriate risk-adjusted terms and covenants.

c) 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

Table of Contents

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 the professionals of our Investment Adviser have long-term relationships.

d) Flexible Transaction Structuring

We are flexible in structuring investments and tailor investments to meet the financial needs of a company while also generating attractive risk-adjusted returns. We can invest in any part of a capital structure and our Investment Adviser has extensive experience in making investments in a wide variety of securities for leveraged companies throughout economic and market cycles.

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 that the in-depth coverage and experience of our Investment Adviser will enable us to invest throughout various stages of the economic and market cycles and to provide us with ongoing market insights in addition to a significant investment sourcing engine.

e) 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 attractive 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 finance 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.

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 \$300.0 million senior secured credit facility (the [credit facility](#)), which matures on June 25, 2012, and is secured by substantially all of our investment portfolio assets (excluding

Table of Contents

the assets of SBIC LP) with a group of lenders, under which we had \$233.1 million (including a \$5.2 million temporary draw) and \$225.1 million (including a \$7.0 million temporary draw) of indebtedness outstanding at September 30, 2010 and 2009, respectively. Pricing of borrowings under our credit facility is set at 100 basis points over the London Interbank Offering Rate (LIBOR). We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. In addition, any future additional debt capital we incur, to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current credit facility.

On August 5, 2010 and November 4, 2010, SBIC LP received a debenture commitment from the SBA in the amount of \$33.5 million and \$66.5 million, respectively, bringing our total commitment from the SBA to \$100 million. SBA debentures offer competitive terms such as being non-recourse to us, having a 10-year maturity, requiring semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of SBIC LP and have a superior claim over such assets. As of September 30, 2010, SBIC LP had \$14.5 million (including \$14.0 million of temporary financing resetting in March 2011) of outstanding SBA debentures. Subsequent to September 30, 2010, SBIC completed its SBA examination in order to gain access to the full SBA commitment subject to customary regulatory requirements. See Regulation for more information.

Operating and Regulatory Structure

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of PennantPark Investment. Under our investment management agreement (the Investment Management Agreement), we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. See Business Investment Management Agreement for more information.

We have also entered into an administration agreement (the Administration Agreement) with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs. See Business Administration Agreement for more information.

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 for more information. We have elected to be treated for federal income tax purposes under the Code as a RIC. See Material U.S. Federal Income Tax Considerations for more information.

Our wholly owned subsidiary, SBIC LP, received a license from the SBA to operate as an SBIC under Section 301(c) of the 1958 Act and is regulated by the SBA. We serve as the investment adviser and administrator to SBIC LP. As an SBIC, the SBA regulates, among other matters, SBIC LP 's investing activities. See Regulation for more information.

Use of Proceeds

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding obligations under our credit facility, to invest in new or existing portfolio companies, to capitalize our SBIC subsidiary 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 September 30, 2010, 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.

Table of Contents

Dividends on Common Stock

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

Dividends on Preferred Stock

We may issue preferred stock from time to time, although we have no immediate intention to do so. Any such preferred stock will be a senior security for purposes of the 1940 Act and, accordingly, subject to the leverage test under that Act. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock will be quarterly and for any auction rate preferred stock (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](#) for more information.

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. See [Dividend Reinvestment Plan](#) for more information.

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. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc. (FINRA), the compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of the offering of such securities. See [Plan of Distribution](#) for more information.

Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on 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.

Stockholder transaction expenses	
Sales load (as a percentage of offering price)	%(1)
Offering expenses (as a percentage of offering price)	%(2)
Total common stockholder expenses (as a percentage of offering price)	%
Estimated annual expenses (as a percentage of net assets attributable to common shares)⁽³⁾	
Management fees	3.68%(4)
Incentive fees payable under the Investment Management Agreement	2.07%(5)
Interest payments on borrowed funds	0.95%(6)
Other expenses	1.20%(7)
Total annual expenses	7.90%(8)

- (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 September 30, 2010.
- (4) The contractual management fee is calculated at an annual rate of 2.00% of our adjusted gross assets on September 30, 2010. See Certain Relationships and Transactions Investment Management Agreement for more information.
- (5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the year ended September 30, 2010. 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 year ended September 30, 2010. See Certain Relationships and Transactions Investment Management Agreement for more information and Note 3 to our consolidated financial statements included in this prospectus.
- (6) As of September 30, 2010, we had \$66.9 million unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$233.1 million (including a \$5.2 million temporary draw) in borrowings outstanding under our \$300.0 million credit facility. As of September 30, 2010, SBIC LP had \$19.0 million unused borrowing capacity, subject to customary regulatory requirements, and \$14.5 million (including \$14.0 million of temporary financing resetting in March 2011) of outstanding SBA debentures under our \$33.5 million commitment from the SBA. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our credit facility. After completing any such offering, we may continue to borrow under our credit facility or SBIC LP's SBA commitment to finance our investment objectives under the terms of our credit facility and SBA debenture program.

Table of Contents

respectively. We have estimated the interest expense on borrowed funds to take this into 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. See Risk Factors Risks Relating To Our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.

- (7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the year ended September 30, 2010. See the Statement of Operations in our consolidated 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 total assets, which include 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 4.30% of total assets. For a presentation and calculation of total annual expenses based on total assets, see page 29 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 5.00% sales load (underwriting discounts and commissions) and offering expenses totaling 0.60%, (2) total net annual expenses of 5.84% 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	\$ 111	\$ 219	\$ 326	\$ 585

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 more information.

Table of Contents

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 could enter a period of severe disruption and instability. These market conditions have historically and could again have a materially and adversely affected debt and equity capital markets in the United States, which could have a negative impact on our business and operations.

During the past three years, 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. During this period of disruption, general economic conditions 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, was reduced significantly. These conditions could and may reoccur for a prolonged period of time again or even materially worsen in the future. While current conditions have improved, we may have difficulty accessing debt and equity capital in order to grow. A return of severe disruption and instability in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect 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 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% of total indebtedness 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 experienced in the past had and may in the future 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 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 to circumstances that we may be unable to control, such as a protracted disruption in the

Table of Contents

credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or an operational problem that affects third parties or us, and could materially damage our business.

Market developments may adversely affect our business and results of operations by reducing availability under our credit facility and SBIC LP s debentures.

In addition to the applicable asset coverage test that restricts our ability to borrow under our credit facility, the credit 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, excluding those portfolio investments held by SBIC LP. 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.

In addition to the credit facility, SBIC LP has issued SBA debentures that require our SBIC to generate sufficient cash flow to make required interest payments. Further, SBIC LP must maintain a minimum capitalization that if impaired could materially and adversely affect our liquidity, financial condition and results of operations by accelerating repayment under the SBA debenture. Our borrowings under our SBA debentures are collateralized by the assets of SBIC LP.

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. 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 and SBA debentures.

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 conditions 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 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. 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

Table of Contents

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 and cause a material decline in the value of our publicly traded common stock.

Our wholly owned SBIC subsidiary may be unable to make distributions to us that will enable us to meet or maintain RIC status.

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our consolidated net ordinary income and net capital gain income, including income from our SBIC subsidiary. We will be partially dependent on our SBIC subsidiary for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiary may be limited by the SBA regulations governing SBICs from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiary to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver and if our SBIC subsidiary is unable to obtain a waiver, compliance with the SBA regulations may result in an entity-level tax on us.

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.

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

We make long-term 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.

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. Managers of our Investment Adviser evaluate, negotiate, structure, close and monitor our investments. Our future success depends on the continued service of management personnel of our Investment Adviser. The departure of 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.

Table of Contents

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 principals of our Investment Adviser or Administrator may also be called upon to provide managerial assistance to portfolio companies 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, CLO funds 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 our 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. Current market conditions and the depressed economic cycle present significant challenges to us that have not been present in recent years, if

Table of Contents

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 our 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, quarterly asset diversification and distribution requirements, we generally will not be subject to corporate-level income tax 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 as well as reduce and/or affect the character and amount of our 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 or gains we do not distribute. If we do not distribute an amount at least equal to the sum of 98% of our ordinary income (during the calendar year) plus 98.2% of our net capital gain income (during each 12-month period ending on October 31), 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 undistributed amount.

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. 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 the sum of our ordinary income and realized net short-term capital gains, if any, to obtain RIC tax 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.

Table of Contents**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 or through SBIC LP's SBA debentures. 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, through our SBIC 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 have obtained such approval from our shareholders in February 2010, which will remain in effect for twelve months. Also, subject to the requirements of the 1940 Act, we may 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 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

Table of Contents

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.

SBA Debentures. In addition to issuing securities and using securitizations to raise capital as described above, we anticipate that in the future, as permitted under SBA regulations, we may, through our wholly owned subsidiary, SBIC LP, issue SBA debentures to generate cash for funding new investments. To issue SBA debentures, we may request commitments for debt capital from the SBA. SBIC LP would be exposed to any losses on its portfolio of loans, however, such debentures are non-recourse to us.

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

The professionals of our Investment Adviser and Administrator 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 and Administrator may be engaged by such funds 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. Officers of our Investment Adviser and Administrator are currently providing managerial assistance to our controlled affiliate.

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 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.

Our wholly owned SBIC subsidiary is licensed by the SBA and is subject to SBA regulations.

Effective July 30, 2010, our wholly owned subsidiary, SBIC LP, received a license from the SBA to operate as an SBIC under the 1958 Act and is regulated by the SBA. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and regulates the types of financings and prohibits investing in certain industries. Compliance with SBIC requirements may cause our SBIC subsidiary to invest at less competitive rates according to applicable SBA regulations.

Table of Contents

Further, SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. If our SBIC subsidiary fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable, and/or limit it from making new investments. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because our SBIC subsidiary is our wholly owned subsidiary.

SBA-guaranteed debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150 million, which is up to twice its regulatory capital. This means that SBIC LP may access the maximum borrowing if it has \$75 million in regulatory capital, which generally equates to the amount of its equity capital. However, we have capitalized SBIC LP with a lesser amount.

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.

Additionally, our subsidiary, SBIC LP, has received borrowed funds from the SBA through its debenture program and has received commitments for additional SBA debentures. In connection with the filing of its SBA license application, PennantPark Investment applied for exemptive relief from the SEC to permit us to exclude the debt of SBIC LP from our consolidated asset coverage ratio.

There can be no assurance that we will be able to capitalize SBIC LP with sufficient regulatory capital to access the maximum borrowing amount available or that we will receive an exemptive relief from the SEC with respect to the SBA debentures. If we are granted exemptive relief, our ratio of total assets on a consolidated basis to outstanding indebtedness may be greater than 200%, which while providing increased investment flexibility, would also increase our exposure to risks associated with leverage.

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, \$300.0 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. In addition, under current market conditions, we believe it will be difficult to renew or refinance our credit facility on terms as favorable as those in our existing credit facility. In particular, market interest rates have escalated significantly for borrowers such as us since we entered into our credit facility in June 2007. If we fail to refinance the indebtedness outstanding under our credit facility at the time it becomes due and payable, the

Table of Contents

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, excluding those of SBIC LP, in connection with our credit facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. Additionally, the SBA as a lender and an administrative agent, has a superior claim over the assets of our SBIC in relation to our lender. In addition, borrowings or SBA debentures, 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 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 September 30, 2010, we had outstanding borrowings of \$233.1 million under our credit facility (including a temporary draw of \$5.2 million) and \$14.5 million outstanding under the SBA debentures (including temporary financings of \$14.0 million). Our consolidated debt outstanding was \$ 247.6 million and had a weighted average annual interest rate at the time of 1.32% exclusive of the fee on undrawn commitment of 0.20% and 3.43% upfront fees on the SBA debentures. Accordingly, to cover the annual interest on our borrowings outstanding at September 30, 2010, at the then current rate, we would have to receive an annual yield of at least 0.46%. This example is for illustrative purposes only, and actual interest rates on our credit facility borrowings and SBA debentures 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% of total indebtedness. 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 September 30, 2010 of 33% of total assets (including such borrowed funds), at a weighted average rate at the time of 1.32%, and assuming hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level and weighted average rate of leverage. The amount of leverage that we use will vary from time to time. 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) ⁽¹⁾	-10.0%	-5.0%	0	5.0%	10.0%
Corresponding return to common stockholders ⁽²⁾	-19.2%	-10.0%	-0.8%	8.4%	17.6%

- (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.

Table of Contents

- (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.

We are exposed to risks associated with changes in interest rates that 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 September 30, 2010, the applicable LIBOR rate has decreased from 5.3% to 0.3%. 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.

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.

Furthermore, the initial rate on SBIC LP's temporary SBA debentures will be reset in March 2011, the next pooling date, at a spread above the 10-year treasury and will remain fixed for 10 years from such date. Thus, while the rate is fixed from September 30, 2010 until March 2011, we are exposed to risks associated with changes in interest rates until March 2011 on any current and future temporary borrowings. In addition, SBA debentures incurred the future may bear significantly less attractive borrowing terms depending upon the then-applicable fixed 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 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 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

Table of Contents

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, including SBA debentures, 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 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 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

Table of Contents

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, if any, 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.

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 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.

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

Table of Contents

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 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 fair value of our debt will have the opposite effect. This will tend to mitigate volatility in our earnings and net asset value. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

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 primarily most, if not all, of our investments (other than cash and cash equivalents) and credit facility borrowings will be classified as Level 3 under ASC 820, Fair Value Measurements. 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

Table of Contents

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 the statement of operations as net change in unrealized appreciation or depreciation.

At September 30, 2010, 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 private investments, 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 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 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, refinancing, 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 recent market developments in which investor appetite for illiquid securities was 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.

Table of Contents

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 U.S. 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 over-the-counter securities to provide us with adequate liquidity, but even these securities did face liquidity constraints under recent market conditions.

The market for other over-the-counter traded securities has weakened in the recent past as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

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 senior secured loans, mezzanine debt and selected equity investments issued by U.S. middle-market companies.

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.

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.

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.

Table of Contents

In addition, investing in middle-market companies involves a number of significant risks, including but not limited to:

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 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.

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, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

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 stake holdings in investment companies. To the extent that

Table of Contents

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. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

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

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.

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 a senior secured loan.

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 have the discretion to make any follow-on investments, subject to the availability of capital resources. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. 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 are not 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.

Because we do not, generally, have controlling equity positions in our portfolio companies, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and

Table of Contents

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, including controlled equity interests, presents certain challenges, including the lack of available or comparable 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 value on our investments. Also, privately held companies 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 senior secured loans, mezzanine debt 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.

The part of our incentive fee payable to PennantPark Investment Advisers that relates to net investment income is computed and paid on income that has been accrued but that we may not have yet received in cash.

Table of Contents

PennantPark Investment Advisers is not obligated to reimburse us for any such incentive fees even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued. As a result, there is a risk that we will pay incentive fees with respect to income that we never receive in cash.

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 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

Table of Contents

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.

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

We have obtained and 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. We have also issued, and in the future we may again issue shares of our common stock at a price below the then current net asset value per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our net asset value per share.

On February 2, 2010, 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 12-month period. Our most recent offering was on August 23, 2010, where we sold shares of our common stock

Table of Contents

below the then current net asset value per share of common stock. Such approval has allowed and will continue to 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 companies 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 has resulted and will continue to 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 future 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.

Because we intend to distribute substantially all of our income to our stockholders to maintain our status as a RIC, we will need to raise additional capital to finance our growth. If funds are not available to us, we may need to curtail new investments, and our common stock value could decline.

In order to satisfy the requirements applicable to a RIC, 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% of indebtedness. This requirement limits the amount 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.

We will be partially dependent on our SBIC subsidiary for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiary may be limited by the SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiary to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver and if our SBIC subsidiary is unable to obtain a waiver, compliance with the SBA regulations may result in an entity-level tax on us.

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.

Table of Contents

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. See Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities for more information.

There is a risk that our common stockholders may receive our stock as dividends, in which case they may be required to pay tax in excess of the cash they receive.

In January 2010, the Internal Revenue Service extended 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 in the United States, (2) the distribution is declared with respect to a taxable year ending on or before December 31, 2011 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 have not elected to distribute stock as a dividend but reserve the right to do so.

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 \$10.61 and \$8.11 as of September 30, 2010 and 2009, respectively. Our NAV was \$10.69 and \$11.85, as of September 30, 2010 and 2009, 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;

Table of Contents

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

any loss of RIC or SBIC 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;

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.

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.

The SBA also limits an SBIC from investing idle funds to the following types of securities:

direct obligations of, or obligations guaranteed as to principal and interest by, the United States government, which mature 15 months from the date of the investment;

repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government);

certificates of deposit with a maturity of one year or less, issued by a federally insured institution; or

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

a deposit account in a federally insured institution that is subject to withdrawal restriction of one year or less.

Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. If this occurs and continues it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus contains statements that constitute forward-looking statements, which relate to both us and our consolidated SBIC subsidiary regarding 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 for both us and our consolidated SBIC subsidiary, 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

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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.

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus or in the periodic reports we file under the Exchange Act.

Table of Contents

USE OF PROCEEDS

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding obligations under our credit facility, to invest in new or existing portfolio companies, to capitalize our SBIC subsidiary or for other general corporate purposes. Any supplements to this prospectus relating to an offering may more fully indentify the use of the proceeds from such offering.

As of September 30, 2010, we had \$66.9 million unused borrowing capacity and \$233.1 million (including a \$5.2 million temporary draw) in borrowings outstanding under our \$300.0 million credit facility. Borrowings under our credit facility bear interest at an annual rate equal to LIBOR + 100 basis points per annum. At September 30, 2010, this corresponded to a weighted average interest rate at that time of 1.34% exclusive of the fee on undrawn commitment of 0.20%. 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.

As of September 30, 2010, we have committed \$50.0 million to SBIC LP, funded it with equity capital of \$14.5 million and had SBA debentures outstanding of \$14.5 million. SBA debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Of the \$14.5 million of SBA debentures outstanding, \$0.5 million is fixed for 10-years with a rate of 3.50% (inclusive of the SBA annual fee and exclusive of 3.43% of upfront fees) and \$14.0 million is temporary financing currently bearing a rate of 0.84% that will reset to a market-driven rate in March 2011. The remaining unused SBA debentures totaled \$19.0 million as of September 30, 2010, subject to customary regulatory requirements. See recent developments for information pertaining to the increased commitment and availability under the SBA debenture program.

We may invest the proceeds from an offering of securities in new or existing portfolio companies, and such investments may take up to a year 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 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 non-temporary investments. The management fee payable by us will not be reduced while our assets are invested in any such temporary investments. See Regulation Temporary Investments for more information.

Table of Contents**SELECTED FINANCIAL DATA**

We have derived the annual financial information below from our audited and 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 periods. The Statement of operations data, Per share data and Balance sheet data for the years ended September 30, 2010, 2009 and 2008, and for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our consolidated 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 consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations and Regulation Senior Securities in this prospectus.

	Year ended September 30, 2010	Year ended September 30, 2009	Year ended September 30, 2008	For the period from January 11, 2007 (inception) through September 30, 2007
(Dollar amounts in thousands, except per share data)	Audited	Audited	Audited	Audited
Statement of operations data:				
Total investment income	\$ 60,140	\$ 45,119	\$ 39,811	\$ 13,107
Net expenses before base management fee waiver	28,065	22,400	21,676	6,444
Net expenses after base management fee waiver ⁽¹⁾	28,065	22,400	21,255	5,803
Net investment income	32,075	22,719	18,556	7,304
Net realized and unrealized gain (loss)	(15,539)	13,083	(59,259)	(24,004)
Net increase (decrease) in net assets resulting from operations	16,535	35,802	(40,703)	(16,699)
Per share data:				
Net asset value (at period end)	10.69	11.85	10.00	12.83
Net investment income ⁽²⁾	1.09	1.08	0.88	0.35
Net realized and unrealized gain (loss) ⁽²⁾	(0.53)	0.62	(2.81)	(1.15)
Net increase (decrease) in net assets resulting from operations ⁽²⁾	0.56	1.70	(1.93)	(0.80)
Distributions declared ^{(2),(6)}	(1.09)	(0.96)	(0.90)	(0.36)
Balance sheet data (at period end):				
Total assets	711,494	512,381	419,811	555,008
Total investment portfolio	664,724	469,760	372,148	291,017
Borrowings outstanding	233,641 ⁽⁵⁾	175,475 ⁽⁵⁾	202,000	10,000
Payable for investments and unfunded investments	74,988	25,821		273,339
Total net asset value	386,575	300,580	210,728	270,393
Other data:				
Total return ⁽³⁾	44.79%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end) ⁽⁴⁾	43	42	37	38
Yield on debt portfolio (at period end) ⁽⁴⁾	12.7%	11.4%	11.1%	10.1%

(1) The base management fee waiver was in effect from Inception through March 31, 2008. See Certain Relationships and Transaction for more information.

(2) Based on the weighted average shares outstanding for the respective periods.

(3) Based on the change in market price per share during the periods and taking into account dividends and distributions, if any, reinvested in accordance with our dividend reinvestment plan. Total return is not annualized for a period less than one year.

(4) Unaudited.

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

- (5) At fair value in the case of our credit facility.
- (6) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under U.S. generally accepted accounting principles.

Table of Contents**Selected Quarterly Data (Unaudited)**

(dollar amounts in thousands, except per share data)

	2010			
	Q4	Q3	Q2	Q1
Total investment income	\$ 16,681	\$ 16,335	\$ 13,525	\$ 13,599
Net investment income	\$ 8,957	\$ 8,821	\$ 7,059	\$ 7,238
Net realized and unrealized (loss) gain	\$ (2,326)	\$ (4,561)	\$ (10,090)	\$ 1,438
Net increase (decrease) in net assets resulting from operations	\$ 6,630	\$ 4,260	\$ (3,031)	\$ 8,676
Earnings per common share	\$ 0.20	\$ 0.13	\$ (0.11)	\$ 0.34
Net asset value per share at the end of the quarter	\$ 10.69	\$ 10.94	\$ 11.07	\$ 11.86
Market value per share at the end of the quarter	\$ 10.61	\$ 9.55	\$ 10.37	\$ 8.92

	2009			
	Q4	Q3	Q2	Q1
Total investment income	\$ 11,847	\$ 10,770	\$ 10,425	\$ 12,077
Net investment income (loss)	\$ 6,018	\$ 5,666	\$ 5,267	\$ 5,768
Net realized and unrealized gain (loss)	\$ 20,162	\$ (6,486)	\$ 36,932	\$ (37,525)
Net increase (decrease) in net assets resulting from operations	\$ 26,180	\$ (820)	\$ 42,199	\$ (31,757)
Earnings per common share	\$ 1.23	\$ (0.04)	\$ 2.00	\$ (1.51)
Net asset value per share at the end of the quarter	\$ 11.85	\$ 11.72	\$ 12.00	\$ 10.24
Market value per share at the end of the quarter	\$ 8.11	\$ 7.10	\$ 3.75	\$ 3.61

	2008			
	Q4	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

	2007		
	Q4	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.

Table of Contents

**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 consolidated financial statements and notes thereto appearing elsewhere in this prospectus.

Overview

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. PennantPark Investment seeks to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 to \$50 million of capital, on average, in the securities of middle-market companies. We use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$1 billion. 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.

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 has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market 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. We have used, and expect to continue to use, our credit facility, the SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Investment Corporation

PennantPark Investment Corporation was organized under the Maryland General Corporation Law in January 2007. We are a closed-end, externally managed, 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, 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 wholly owned SBIC subsidiary, PennantPark SBIC LP, was organized as a Delaware limited partnership on May 7, 2010 and received a license from the SBA to operate as an SBIC under Section 301(c) of the 1958 Act on July 30, 2010. Our SBIC's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP, generally, invests with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

Our investment activities are managed by 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 assets as well as an incentive fee based on our investment performance.

Table of Contents

PennantPark Investment, through the Investment Adviser, manages day-to-day operations of and provides investment advisory services to SBIC LP under its investment management agreement. The SBIC LP investment management agreement does not affect the management or incentive fees that we pay to the Investment Advisor on a consolidated basis. 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. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement with us. Our board of directors, a majority of whom are independent of us and PennantPark Investment Advisers supervise our activities.

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 senior secured loans or mezzanine debt, typically have a term of three to ten years and 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 income. We record prepayment premiums on loans and debt securities as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date 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 and SBA debentures. We bear all other direct or indirect 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 or complementary businesses;

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;

Table of Contents

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, the 1958 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.

During periods of asset growth, we expect our general and administrative expenses to be relatively stable or decline as a percentage of total assets and increase during periods of asset declines. 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 6 of this prospectus rather than as a percentage of total assets. Total assets include 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:

Estimated Annual Expenses (as a Percentage of Total Assets)

Base management fees	2.00% ⁽¹⁾
Incentive fees payable under the Investment Management Agreement	1.13% ⁽²⁾
Interest payments on borrowed funds	0.52% ⁽³⁾
Other expenses	0.65% ⁽⁴⁾
Total Annual Expenses	4.30%

- (1) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets. See Certain Relationships and Transactions Investment Management Agreement for more information.
- (2) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the year ended September 30, 2010. 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 year ended September 30, 2010. See Certain Relationships and Transactions Investment Management Agreement for more information and Note 3 to our consolidated financial statements included in this prospectus.
- (3) As of September 30, 2010, we had \$66.9 million unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$233.1 million (including a \$5.2 million temporary draw) in borrowings outstanding under our \$300.0 million credit facility. As of September 30, 2010, SBIC LP had \$19.0 million unused borrowing capacity, subject to customary regulatory requirements, and \$14.5 million (including \$14.0 million of temporary financing resetting in March 2011) of outstanding SBA debentures

Table of Contents

under our \$33.5 million commitment from the SBA. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our credit facility. After completing any such offering, we may continue to borrow under our credit facility or SBIC LP's SBA commitment to finance our investment objectives under the terms of our credit facility and SBA debenture program, respectively. We have estimated the interest expense on borrowed funds to take this into 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. See *Risk Factors* *Risks Relating To Our Business and Structure*. We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.

- (4) 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 year ended September 30, 2010. See the Statement of Operations in our consolidated financial statements.

Critical Accounting Policies

The discussion of our financial condition and results of operation is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of consolidated 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 consolidated financial statements.

Valuation of Portfolio Investments

Our investments generally consist of 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 independent pricing services or at the bid prices obtained from at least two broker/dealers, if available, 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 investment 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 of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value. With respect to unquoted securities, our board of directors, in consultation 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 of directors 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.

Table of Contents

With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, 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 review 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.

The Financial Accounting Standards Board, or FASB, issued guidance related to Fair Value Measurements, or ASC 820, 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 ASC 820 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. ASC 820 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 the PennantPark Investment's financial position or its results of operations.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by PennantPark Investment 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 PennantPark Investment's own assumptions about how market participants would price the asset or liability.

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.

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. Generally, all of our investments (other than cash and cash equivalents) and long-term credit facility are classified as Level 3.

Table of Contents

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt 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.

The FASB issued guidance on, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 115*, or ASC 825-10. 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 ASC 825-10 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 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. For the fiscal years ended September 30, 2010 and 2009, our long-term credit facility had a net change in unrealized (appreciation) depreciation of \$(35.7) million and \$7.8 million, respectively. On September 30, 2010 and 2009, net unrealized appreciation on our long-term credit facility totaled \$13.9 million and \$49.6 million, respectively, which included the cumulative effect of adoption of ASC 825-10 on our credit facility of \$41.8 million. We use a nationally recognized independent valuation services 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 consolidated statement of operations. We have not elected to apply ASC 825-10 to any other financial assets or liabilities.

FASB guidance on, *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*, or ASC 820-10-35-51A. ASC 820-10-35-51A amends ASC 820 to provide additional guidance for estimating fair value 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 ASC 820-10-35-51A is effective for periods ending after June 15, 2009. We adopted ASC 820-10-35-51A on June 30, 2009, and it did not have a material impact on our financial statements.

Revenue Recognition

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments 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 investments if we determine that it is probable that we will not be able to collect such interest. Loan origination fees, original issue discount, market discount or premium and deferred financing costs on our debt are capitalized, and we then amortize such amounts as interest income or expense as applicable. We record prepayment premiums on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

Table of Contents**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 or PIK

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.

Federal Income Taxes

We operate so as to qualify to maintain our election 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. Although not required for us to maintain our RIC tax status, we must also distribute an amount at least equal to the sum of 98% of our ordinary income (during each calendar year) plus 98.2% of our net capital gains (during each 12 month period ending on October 31) to avoid a 4% excise tax.

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 September 30, 2010, our portfolio totaled \$664.7 million and consisted of \$234.6 million of senior secured loans, \$156.7 million of second lien secured debt, \$223.9 million of subordinated debt and \$49.5 million of preferred and common equity investments. Our portfolio consisted of 75% fixed-rate (including 26% with a LIBOR or prime floor) and 25% variable-rate investments. Overall, the portfolio had an unrealized appreciation of \$8.0 million. Our overall portfolio consisted of 43 companies with an average investment size of \$15.5 million, a weighted average yield on debt investments of 12.7%, and was invested 35% in senior secured loans, 24% in second lien secured debt, 34% in subordinated debt and 7% in preferred and common equity investments.

As of September 30, 2009, our portfolio totaled \$469.8 million and consisted of \$150.6 million of senior secured loans, \$134.4 million of second lien secured debt, \$157.1 million of subordinated debt and \$27.7 million of preferred and common equity investments. Our debt portfolio consisted of 53% fixed-rate (including 13% with a LIBOR or prime floor) and 47% variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$27.5 million. Our overall portfolio consisted of 42 companies with an average investment size of \$11.2 million and a weighted average yield on debt investments of 11.4%, and was invested 32% in senior secured loans, 29% in second lien secured debt, 33% in subordinated debt and 6% in preferred and common equity investments.

For the fiscal year ended September 30, 2010, we purchased \$309.5 million of investments issued by 17 new and 12 existing portfolio companies with an overall weighted average yield of 14.9% on debt investments.

Table of Contents

This compares to purchasing \$112.7 million in 11 new and 8 existing portfolio companies with an overall weighted average yield of 14.5% on debt investments, and compares to purchasing \$206.8 million in 14 new and 2 existing portfolio companies with an overall weighted average yield of 13.8% on debt investments for the fiscal years ended September 30, 2009 and 2008, respectively.

Results of operations

Set forth below are our results of operations for the fiscal years ended September 30, 2010, 2009 and 2008.

Investment Income

Investment income for the fiscal year ended September 30, 2010, was \$60.1 million, and was primarily attributable to \$16.9 million from senior secured loan investments, \$13.2 million from second lien secured debt investments, and \$24.7 million from subordinated debt investments for the same period. The remaining investment income was primarily attributed to interest income from net accretion of discount and amortization of premium. The increase in investment income over the prior year was due to growth of our portfolio which was also driven by investment of the proceeds from our equity offerings and rotation out of lower yielding assets.

Investment income for the fiscal year ended September 30, 2009, was \$45.1 million, and was primarily attributable to \$6.0 million from senior secured loan investments, \$12.2 million from second lien secured debt investments, and \$24.1 million from subordinated debt investments for the same period. The remaining investment income was primarily attributed to interest income from net accretion of discount and amortization of premium. The increase in investment income over the prior year was due to the growth in our overall portfolio.

Investment income for the fiscal year ended September 30, 2008, was \$39.8 million, and was primarily attributable to \$16.2 million from senior secured loan investments, \$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 attributed to interest income from short-term investments and to net accretion of discount and amortization of premium. The increase in investment income over the prior year was due to the growth of our portfolio and the transition of the portfolio from temporary to long-term investments.

Expenses

Expenses for the fiscal year ended September 30, 2010, totaled \$28.0 million. Base management fee for the same period totaled \$11.6 million, performance-based incentive fee totaled \$8.0 million, credit facility and SBA debentures related expenses totaled \$3.7 million, general and administrative expenses totaled \$4.6 million and an excise tax of \$0.1 million was incurred. The increase in expenses over the prior year was primarily due to the growth of our portfolio and net investment income.

Expenses for the fiscal year ended September 30, 2009, totaled \$22.4 million. Base management fee for the same period totaled \$7.7 million, performance-based incentive fee totaled \$5.7 million, credit facility related expenses totaled \$4.6 million and general and administrative expenses totaled \$4.4 million. The increase in expenses over the prior year was primarily due to the growth of our portfolio and offset by the reduced borrowing costs under our credit facility.

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 over the prior year was due to the growth of our portfolio and the incurrence of additional borrowing costs under our credit facility.

Net Investment Income

Net investment income totaled \$32.1 million or \$1.09 per share, \$22.7 million or \$1.08 per share and \$18.6 million or \$0.88 per share, respectively, for the fiscal years ended September 30, 2010, 2009 and 2008. The

Table of Contents

increase in per share net investment income from 2009 to 2010 was the result of the growth of our portfolio offset by the dilutive effect of issuing shares below our net asset value.

Net Realized Losses

Sales and repayments of long-term investments for the fiscal years ended September 30, 2010, 2009 and 2008, totaled \$145.2 million, \$28.0 million and \$70.1 million, respectively, and net realized losses totaled \$15.4 million, \$39.2 million and \$11.2 million, respectively. Net realized losses decreased over the prior year due to improvements in the overall leveraged finance markets.

Net Change in Unrealized Appreciation (Depreciation) on Investments and Credit Facility

Net change in unrealized appreciation (depreciation) on investments totaled \$35.5 million, \$44.5 million and \$(48.1) million for the fiscal years ended September 30, 2010, 2009 and 2008, respectively. Net change in unrealized (appreciation) depreciation on credit facility totaled \$(35.7) million and \$7.8 million for the fiscal years ended September 30, 2010 and 2009, respectively. Net change in unrealized appreciation on investments improved over the prior year due to the overall improvements in the leveraged finance markets. Net change in unrealized (appreciation) on our credit facility over the prior year is the result of it approaching maturity.

Net Increase (Decrease) in Net Assets Resulting From Operations

Net increase (decrease) in net assets resulting from operations totaled \$16.5 million or \$0.56 per share, \$35.8 million or \$1.70 per share, and \$(40.7) million or \$(1.93) per share for the fiscal years ended September 30, 2010, 2009 and 2008, respectively. The net increase in net assets from operations over the prior year was due to the continued growth in net investment income as a result of growing our portfolio, offset by realized losses and the appreciation in the value of our credit facility as it approaches maturity. The net increase in net assets resulting from operations decreased from 2008 to 2009, primarily due to a decline in the leveraged finance markets.

Liquidity and Capital Resources

Our liquidity and capital resources are derived from our credit facility, SBA debentures and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our credit facility, the SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

On June 25, 2007, PennantPark Investment entered into its 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 JPMorgan Chase (Chase Lincoln First Commercial as successor in interest of Bear Stearns Corporate Lending Inc.) acted as joint lead arranger and syndication agent. As of September 30, 2010, we had outstanding borrowings of \$233.1 million (including a \$5.2 million temporary draw) with a fair value of \$219.1 million and a weighted average interest rate at the time of 1.34% exclusive of the fee on undrawn commitment of 0.20%.

Under the 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, except for those assets of SBIC LP. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR.

Table of Contents

The credit facility contains affirmative and restrictive covenants, including but not limited to maintenance of a minimum shareholders' equity of the greater of (i) 40% of the total assets of PennantPark Investment and its subsidiaries as of 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 and 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, (excluding any exemptive relief granted by the SEC with respect to the indebtedness of any SBIC subsidiary). In addition to the asset coverage ratio described in 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. As of September 30, 2010, we are in compliance with the terms of our credit facility.

We may raise additional equity or debt capital through both registered offerings off a shelf registration and by private offerings of securities, by securitizing a portion of our investments or borrow from the SBA through our SBIC subsidiary, among other considerations. Any future additional debt capital we incur, to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current credit facility. We continuously monitor conditions in the credit markets and seek opportunities to enhance our debt structure considering our credit facility matures in June 2012. Furthermore, our credit facility availability depends on various covenants and restrictions as discussed in the preceding paragraph. 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.

On February 2, 2010, 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. For the fiscal year ended September 30, 2010, we sold 10.8 million shares of our common stock below the then current net asset value per share, inclusive of the underwriters' over-allotment options, resulting in net proceeds of \$101.7 million. This compares to selling 4.3 million shares of common stock resulting in net proceeds of \$32.5 million in the prior year, excluding the underwriters' over-allotment option. Any decision to sell shares 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 has resulted and will continue to result in an immediate dilution to our stockholders' interest in our common stock and a reduction of our net asset value per share.

SBIC LP is able to borrow funds from the SBA against regulatory capital that is paid-in, subject to customary regulatory requirements including but not limited to an examination by the SBA. As of September 30, 2010, we have committed \$50.0 million to SBIC LP, funded it with equity capital of \$14.5 million and had SBA debentures outstanding of \$14.5 million. SBA debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150 million, which is up to twice its potential regulatory capital. This means that SBIC LP may access the maximum borrowing if it has \$75 million in regulatory capital.

On August 5, 2010, SBIC LP received a SBA debenture commitment of \$33.5 million. As of September 30, 2010, \$14.5 million of the \$33.5 million debt commitment was drawn with a weighted average interest rate of 0.93% exclusive of the 3.43% in upfront fees. Of the \$14.5 million of SBA debentures outstanding, \$0.5 million is fixed for 10-years with a rate of 3.50% (inclusive of the SBA annual fee) and \$14.0 million is temporary financing currently bearing a rate of 0.84% that will reset to a market-driven rate in March 2011. Additionally, SBA debentures require an upfront commitment fee of 1% and are issued at a 2.43% discount to face. Both fees are amortized over the life of the loan. The remaining unused SBA debentures totaled \$19.0 million as of

Table of Contents

September 30, 2010, subject to customary regulatory requirements. See recent developments for information pertaining to the increased commitment and availability under the SBA debenture program.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, SBIC LP is subject to regulatory requirements including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries, requiring capitalization thresholds that limit distributions to us, and is subject to periodic audits and examinations. As of September 30, 2010, SBIC LP is in compliance with its regulatory requirements.

PennantPark Investment applied for exemptive relief from the SEC to permit us to exclude the debt of SBIC LP from our consolidated asset coverage ratio. There can be no assurance that we will be able to capitalize SBIC LP with sufficient regulatory capital to access the maximum borrowing amount available or that we will receive an exemptive relief from the SEC with respect to the SBA-guaranteed debentures.

If we are granted exemptive relief, our ratio of total assets on a consolidated basis to outstanding to indebtedness may be greater than 200%, which while providing increased investment flexibility, would also increase our exposure to risks associated with leverage. See Risk Factors If we incur additional debt, it could increase the risk of investing in our shares for more information.

At September 30, 2010, we had over \$100 million of assets bearing a coupon of 9% or lower. We will look to rotate these assets into new higher yielding investments over time.

Our operating activities used cash of \$127.1 million for the fiscal year ended September 30, 2010, and our financing activities provided net cash proceeds of \$95.6 million for the same period. Our operating activities used cash primarily for investing that was provided from, primarily, proceeds from our follow-on public offerings of common stock and draws under the credit facility and SBA debentures.

Our operating activities used cash of \$42.4 million for the fiscal year ended September 30, 2009, and our financing activities provided net cash proceeds of \$35.4 million for the same period, primarily from proceeds from a follow-on public offering of common stock. Our operating activities used cash primarily for investing, that was provided from proceeds from a secondary public offering and draws under the credit facility.

Our operating activities used cash of \$395.8 million for the fiscal year ended September 30, 2008, and our financing activities provided cash proceeds of \$178.1 million for the same period, primarily from borrowings under our credit facility. Our operating activities used cash primarily for investing that was provided from proceeds from our credit facility.

Contractual Obligations

A summary of our significant contractual payment obligations including, but not limited to, borrowings under the multi-currency \$300.0 million, five-year, revolving credit facility maturing in June 2012 is as follows:

	Total	Payments due by period (millions)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior secured revolving credit facility ⁽¹⁾	\$ 233.1	\$	\$ 233.1	\$	\$
SBA debentures ⁽²⁾	14.5				14.5
Subtotal debt outstanding ⁽³⁾	247.6		233.1		14.5
Unfunded investments ⁽⁴⁾	22.2	3.6	18.6		
Total contractual obligations	\$ 269.8	\$ 3.6	\$ 251.7	\$	\$ 14.5

(1)

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

As of September 30, 2010, we had \$66.9 million of unused borrowing capacity under our credit facility, subject to maintenance of the applicable total assets to debt ratio of 200%, maintenance of a blended

Table of Contents

percentage of the values of our portfolio companies and restrictions on certain payments and issuance of debt. Amount outstanding included a \$5.2 million temporary draw.

- (2) As of September 30, 2010, SBIC LP had \$19.0 million of unused borrowing capacity under SBIC LP's commitment from the SBA and \$14.0 million of SBA debentures that will have a rate reset in March 2011.
- (3) The weighted average interest rate on the total debt outstanding as of September 30, 2010 is 1.32% exclusive of the fee on undrawn commitment of 0.20% and 3.43% of upfront fees on SBIC LP's SBA debentures.
- (4) Unfunded debt investments described in the consolidated statement of assets and liabilities represent unfunded delayed draws on investments in first lien secured debt and subordinated debt investments.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was renewed in February 2010, PennantPark Investment Advisers serves as our investment adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, manages day-to-day operations of and provides investment advisory services to SBIC LP under its investment management agreement. The SBIC LP investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are 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 note 3 to the consolidated financial statements.

Under our Administration Agreement, which was renewed in February 2010, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement which is intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, we or 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 staffs. See note 3 to the consolidated financial statements.

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

Distributions

In order to qualify as a RIC and to not be subject to corporate-level tax on income, we are required, under Subchapter M of the Code, to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, to our stockholders on an annual basis. Although not required for us to maintain our RIC tax status, we must also distribute an amount at least equal to the sum of 98% of our ordinary income (during each calendar year) plus 98.2% of our net capital gains (during each 12-month period ending on October 31) to avoid a 4% excise tax. For the fiscal year ended September 30, 2010, we elected to retain a portion of our calendar year income and recorded an excise tax of \$0.1 million.

Table of Contents

During the fiscal years ended September 30, 2010, 2009 and 2008, we declared to stockholders distributions of \$1.03, \$0.96 and \$0.90 per share, respectively, for total distributions of \$32.3 million, \$20.2 million and \$19.0 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.

Recent Developments

On November 4, 2010, SBIC LP received a debt commitment from the SBA for an additional \$66.5 million bringing its total debt commitment from the SBA to \$100.0 million. Subsequent to September 30, 2010, SBIC LP completed its SBA examination in order to gain access to the full SBA commitment subject to customary regulatory requirements.

Quantitative and qualitative disclosure about market risk

We are subject to financial market risks, including changes in interest rates. Through the date of this prospectus, 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 September 30, 2010 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. Through the date of this prospectus, we did not engage in interest rate hedging activities.

Table of Contents**SENIOR SECURITIES**

Information about our senior securities is shown in the following table as of September 30, 2010, 2009, 2008 and 2007. The information for September 30, 2010, 2009, 2008 and 2007 presented below has been derived from our consolidated financial statements which have been audited by KPMG LLP.

Class and Year	Total Amount Outstanding⁽¹⁾	Asset Coverage per Unit⁽²⁾ (unaudited)	Involuntary Liquidating Preference Per Unit⁽³⁾	Average Market Value Per Unit⁽⁴⁾
Credit Facility				
Fiscal 2010 (as of September 30, 2010) ⁽⁵⁾	\$ 233,100	\$ 2,661	N/A	N/A
Fiscal 2009 (as of September 30, 2009)	\$ 225,100	\$ 2,115	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.
- (5) Amount excludes SBA debentures outstanding. See note 10 in our consolidated financial statements.

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 January 21, 2011, the last reported closing price of our common stock was \$12.20 per share.

Period	NAV ⁽¹⁾	Closing Sales Price		High Sales Price to NAV ⁽²⁾	Low Sales Price to NAV ⁽²⁾	Declared Dividend
		High	Low			
Fiscal year ending September 30, 2011						
First quarter	\$ N/A	\$ 12.75	\$ 10.60	N/A%	N/A%	\$ 0.26
Fiscal year ending September 30, 2010						
Fourth quarter	10.69	10.69	9.17	100	86	0.26
Third quarter	10.94	11.84	9.02	108	82	0.26
Second quarter	11.07	10.77	8.88	97	80	0.26
First quarter	11.86	9.15	7.63	77	64	0.25
Fiscal year ended September 30, 2009						
Fourth quarter	11.85	9.06	6.28	76	53	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
Fiscal year ended September 30, 2008						
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
Fiscal year ended September 30, 2007						
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.

While our common stock has from time to time traded in excess of our net asset value, there can be no assurance that it will trade at such a premium (to net asset value) in the future.

Table of Contents

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our meeting of stockholders held on February 2, 2010, 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 February 2, 2010 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 our 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 in the current financial market;

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;

The leverage available to us and SBIC LP, both before and after the offering and other borrowing terms; and

The potential investment opportunities available relative to the potential dilutive effect of additional capital at the time of the offering.

Our board of directors will also consider the fact that a sale 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 stockholders who do not purchase any shares in the offering;

existing stockholders 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 stockholders by purchasing shares in the offering.

Impact on Existing Stockholders who do not Participate in the Offering

Our existing stockholders who do not participate, or who are not given the opportunity to 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

Table of Contents

stockholders will experience an immediate decrease (often 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 examples illustrate the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current NAV and NAV per share are thus \$10,000,000 and \$10.00, respectively. The table below illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after offering expenses and commission (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after offering expenses and commissions (a 10% discount from NAV); and (3) an offering of 200,000 shares (20% of the outstanding shares) at \$8.00 per share after offering expenses and commissions (a 20% discount from NAV).

		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price							
Price per share to public		\$ 10.05		\$ 9.52		\$ 8.47	
Net offering proceeds per share to issuer		\$ 9.50		\$ 9.00		\$ 8.00	
Decrease to NAV							
Total shares outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per share	\$ 10.00	\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.67	(3.30)%
Dilution to Stockholder A							
Shares held by stockholder A	10,000	10,000		10,000		10,000	
Percentage held by stockholder A	1.0%	0.95%	(5.00)%	0.91%	(9.00)%	0.83%	(17.00)%
Total Asset Values							
Total NAV held by stockholder A	\$ 100,000	\$ 99,800	(0.20)%	\$ 99,100	(0.90)%	\$ 96,700	(3.30)%
Total investment by stockholder A (assumed to be \$10.00 per share)	\$ 100,000	\$ 100,000		\$ 100,000		\$ 100,000	
Total dilution to stockholder A (total NAV less total investment)		\$ (200)		\$ (900)		\$ (3,300)	

Table of Contents

		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Per Share Amounts							
NAV per share held by stockholder A		\$ 9.98		\$ 9.91		\$ 9.67	
Investment per share held by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 10.00	\$ 10.00		\$ 10.00		\$ 10.00	
Dilution per share held by stockholder A (NAV per share less investment per share)		\$ (0.02)		\$ (0.09)		\$ (0.33)	
Percentage dilution to stockholder A (dilution per share divided by investment per share)			(0.20)%		(0.90)%		(3.30)%

Impact on Existing Stockholders who Participate in the Offering

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 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.

Table of Contents

The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current NAV and NAV per share are thus \$10,000,000 and \$10.00, respectively. The table below illustrates the (dilutive) and accretive effect in the hypothetical 20% discount offering from the prior chart for stockholder A that acquires shares equal to (1) 50% of their proportionate share of the offering (i.e. 1,000 shares which is 0.50% of the offering of 200,000 shares rather than their 1.00% proportionate share) and (2) 150% of their proportionate share of the offering (i.e. 3,000 shares which is 1.50% of the offering of 200,000 shares rather than their 1.00% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
Offering Price					
Price per share to public		\$ 8.47		\$ 8.47	
Net proceeds per share to issuer		\$ 8.00		\$ 8.00	
Increases in Shares and Decrease to NAV					
Total shares outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
NAV per share	\$ 10.00	\$ 9.67	(3.30)%	\$ 9.67	(3.30)%
(Dilution)/Accretion to Participating Stockholder A					
Shares held by stockholder A	10,000	11,000	10.00%	13,000	30.00%
Percentage held by stockholder A	1.00%	0.92%	(8.00)%	1.08%	8.00%
Total Asset Values					
Total NAV held by stockholder A	\$ 100,000	\$ 106,370	6.37%	\$ 125,710	25.71%
Total investment by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 100,000	\$ 108,470	8.47%	\$ 125,410	25.41%
Total (dilution)/accretion to stockholder A (total NAV less total investment)		(2,100)		\$ 300	
Per Share Amounts					
NAV per share held by stockholder A		\$ 9.67		\$ 9.67	
Investment per share held by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 10.00	\$ 9.86	(1.40)%	\$ 9.65	(3.50)%
(Dilution)/accretion per share held by stockholder A (NAV per share less investment per share)		\$ (0.19)		\$ 0.02	
Percentage (dilution)/accretion to stockholder A (dilution/accretion per share divided by investment per share)			(1.93)%		0.21%

Impact on New Investors

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

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

Table of Contents

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 examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder who purchases the same percentage (1.00%) of the shares in the three different hypothetical offerings of common stock of different sizes and levels of discount from NAV per share. The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current NAV and NAV per share are thus \$10,000,000 and \$10.00, respectively. The table below illustrates the dilutive and accretive effects on a stockholder A at (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after offering expenses and commission (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after offering expenses and commissions (a 10% discount from NAV); and (3) an offering of 200,000 shares (20% of the outstanding shares) at \$8.00 per share after offering expenses and commissions (a 20% discount from NAV).

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	% Change	Example 2 10% Offering at 10% Discount Following Sale	% Change	Example 3 20% Offering at 20% Discount Following Sale	% Change
Offering Price							
Price per share to public		\$ 10.05		\$ 9.52		\$ 8.47	
Net offering proceeds per share to issuer		\$ 9.50		\$ 9.00		\$ 8.00	
Decrease to NAV							
Total shares outstanding		1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per share		\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.67	(3.30)%
Dilution to Stockholder A							
Shares held by stockholder A		500		1,000		2,000	
Percentage held by stockholder A		0.05%		0.09%		0.17%	
Total Asset Values							
Total NAV held by stockholder A		\$ 4,990		\$ 9,910		\$ 19,340	
Total investment by stockholder A		\$ 5,025		\$ 9,952		\$ 16,940	
Total dilution to stockholder A (total NAV less total investment)		\$ (35)		\$ 390		\$ 2,400	

Table of Contents

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Per Share Amounts							
NAV per share held by stockholder A		\$ 9.98		\$ 9.91		\$ 9.67	
Investment per share held by stockholder A		\$ 10.05		\$ 9.52		\$ 8.47	
Dilution per share held by stockholder A (NAV per share less investment per share)		\$ (0.07)		\$ 0.39		\$ 1.20	
Percentage dilution to stockholder A (dilution per share divided by investment per share)			(0.70)%		4.10%		14.17%

Table of Contents**DISTRIBUTIONS**

We intend to continue making quarterly distributions to our stockholders. The timing and amount of our quarterly distributions, if any, is determined by our board of directors. Any distributions to our stockholders are declared out of assets legally available for distribution. 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 reflects the cash distributions, including dividends and returns of capital per share that we have declared on our common stock since our inception:

Record Dates	Payment Dates	Dividends Declared
Fiscal year ending September 30, 2011		
December 17, 2010	January 3, 2011	\$ 0.26
Total		\$ 0.26
Fiscal year ending September 30, 2010*		
September 14, 2010	October 1, 2010	\$ 0.26
June 24, 2010	July 1, 2010	\$ 0.26
March 25, 2010	April 1, 2010	\$ 0.26
December 24, 2009	January 4, 2010	\$ 0.25
Total		\$ 1.03
Fiscal year ended September 30, 2009*		
September 8, 2009	October 1, 2009	\$ 0.24
June 24, 2009	July 1, 2009	\$ 0.24
March 25, 2009	April 1, 2009	\$ 0.24
December 23, 2008	January 4, 2009	\$ 0.24
Total		\$ 0.96
Fiscal year ended September 30, 2008		
September 24, 2008	October 1, 2008	\$ 0.24
June 23, 2008	June 30, 2008	\$ 0.22
March 24, 2008	March 31, 2008	\$ 0.22
December 24, 2007	December 31, 2007	\$ 0.22
Total		\$ 0.90
Fiscal year ended September 30, 2007		
September 25, 2007	September 28, 2007	\$ 0.22
June 22, 2007	June 29, 2007	\$ 0.14
Total		\$ 0.36**

* See note 8 to our consolidated financial statements

** \$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, and intend to qualify annually to maintain our election to be taxed, as a RIC under Subchapter M of the Code. To maintain RIC tax benefits, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements (as described below). We also must annually distribute dividends of at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, out of the assets legally available for distribution (the Annual Distribution Requirement). Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of

Table of Contents

(1) 98% of our ordinary income for the calendar year, (2) 98.2% of our realized net capital gains for the 12-month period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years (the Excise Tax Avoidance Requirement). In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may decide to retain such net capital gains or ordinary income to provide us with additional liquidity.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend or other distribution, then stockholders cash distributions 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 distributions.

In January 2010, the Internal Revenue Service extended 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, 2011 and (3) each stockholder 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 stockholders, which must be at least 10% of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder 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 stockholder electing to receive cash receive less than 10% of his or her entire distribution in cash. We have not elected to distribute stock as a dividend but reserve the right to do so. See Material U.S. Federal Income Tax Considerations for more information.

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.

Table of Contents

BUSINESS

PennantPark Investment Corporation

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. PennantPark Investment seeks to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 to \$50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. 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.

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 has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market 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. We have used, and expect to continue to use, our credit facility, the SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Investment Corporation

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. In addition, for tax purposes we have elected to be treated as a RIC, under the Code.

Our wholly owned SBIC subsidiary, PennantPark SBIC LP, was organized as a Delaware limited partnership on May 7, 2010 and received a license from the SBA to operate as an SBIC under Section 301(c) of the 1958 Act on July 30, 2010. Our SBIC's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP, generally, invests with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers to develop what we believe to be an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years, and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment

Table of Contents

Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our inception in 2007, we have raised nearly \$800 million in debt and equity capital, and have invested over \$1 billion in 96 companies and 48 different financial sponsors.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC and the SBA. The Administrator oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See [Risk Factors](#) [Risks Related to our Business and Structure](#) for more information.

Market Opportunity

We believe that the limited amount of capital available to the middle-market companies, coupled with the desire 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 middle-market companies have faced difficulty raising debt in private markets. Banks, finance companies, hedge funds and CLO funds have withdrawn capital from the middle-market resulting in opportunities for alternative funding sources.

We believe that the current credit market dislocation for middle-market companies improves the risk-adjusted returns of our investments. In the current credit environment, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, there is less competition in our market, more conservative capital structures, higher yields and stronger covenants.

We believe there is a large pool of uninvested private equity capital 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 senior secured loans and/or mezzanine debt 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 there is substantial supply of opportunities resulting from refinancing. A high volume of financings were completed between the years 2004 and 2007, which will come due in the next few years. This supply of opportunities coupled with a lack of demand offers attractive risk-adjusted returns to investors.

Competitive Advantages

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

a) Experienced Management Team

The senior professionals of the Investment Adviser have worked together for many years and average over 20 years of experience in mezzanine lending, leveraged finance, distressed debt and private equity businesses.

Table of Contents

The senior professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this extensive experience and history has resulted in a strong reputation across the capital markets.

b) Disciplined Investment Approach with Strong Value Orientation

We employ a disciplined approach in selecting investments that meet the long-standing, consistent 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. See **Business Investment Selection Criteria** for more information.

In addition to engaging in extensive due diligence, our Investment Adviser seeks to reduce risk by focusing on businesses with:

strong competitive positions;

positive cash flow that is steady and stable;

experienced management teams with strong track records;

potential for growth and viable exit strategies; and

capital structures offering appropriate risk-adjusted terms and covenants.

c) 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 the professionals of our Investment Adviser have long-term relationships.

d) Flexible Transaction Structuring

We are flexible in structuring investments and tailor investments to meet the needs of a company while also generating attractive risk-adjusted returns. We can invest in any part of a capital structure and our Investment Adviser has extensive experience in a wide variety of securities for leveraged companies throughout economic and market cycles.

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 that the in-depth coverage and experience of our Investment Adviser will enable us to invest throughout various stages of the economic and market cycles and to provide us with ongoing market insights in addition to a significant investment sourcing engine.

Table of Contents

e) 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 attractive 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 finance 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.

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 \$300.0 million credit facility, which matures on June 25, 2012, and is secured by substantially all of our investment portfolio assets (excluding assets of SBIC LP) with a group of lenders, under which we had \$233.1 million (including a \$5.2 million temporary draw) and \$225.1 million (including a \$7.0 million temporary draw) of indebtedness outstanding at September 30, 2010 and 2009, respectively. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. In addition, any future additional debt capital we incur, to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current credit facility.

On August 5, 2010 and November 4, 2010, SBIC LP received a debenture commitment from the SBA in the amount of \$33.5 million and \$66.5 million, respectively, bringing our total commitment from the SBA to \$100 million. SBA debentures offer competitive terms such as being non-recourse to us, having a 10-year maturity, requiring semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of SBIC LP and have a superior claim over such assets. As of September 30, 2010, SBIC LP had \$14.5 million (including \$14.0 million of temporary financing resetting in March 2011) of outstanding SBA debentures. See [Regulation and Recent Developments](#) in [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) for more information.

Table of Contents

INVESTMENT OBJECTIVES AND POLICIES

Investment Policy Overview

PennantPark Investment seeks to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity by targeting an investment size of \$10 to \$50 million, on average, in securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. 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.

Over time, we expect that our portfolio will continue to consist primarily of senior secured loans, mezzanine debt and, to a lesser extent, equity investments in qualifying assets such as private or thinly traded or small market-cap, public middle-market U.S. companies. In addition, we may invest up to 30% of our portfolio in non-qualifying assets. See Regulation Qualifying Assets for more information. These non-qualifying assets may include investments in public companies whose securities are not thinly traded or do not have a market capitalization of less than \$250 million, securities of middle-market companies located outside of the United States and investment companies as defined in the 1940 Act. Moreover, we may acquire investments in the secondary market. See Investment Policy Overview Investment selection criteria for more information.

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.

Senior Secured Debt

Structurally, senior secured debt (which we define to include first lien debt) ranks senior in priority of payment to mezzanine debt and equity, and benefits from a senior collateral interest in the assets of the borrower. As such, other creditors rank junior to our investments in these securities in the event of insolvency. Due to its lower risk profile and often more restrictive covenants as compared to mezzanine debt, senior secured debt generally earns a lower return than mezzanine debt. In some cases senior secured lenders receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

Mezzanine Debt

Structurally, mezzanine debt (which we define to include second lien secured debt and subordinated debt) 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.

Table of Contents

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. Our SBIC subsidiary will invest in SBA eligible investments that otherwise meet the same investment criteria used by PennantPark Investment.

We have identified several criteria, discussed below, 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 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.

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 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

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 other capital market transaction.

Due diligence

We believe it is critical to conduct extensive due diligence on investment targets and in evaluating new investments. Our Investment Adviser conducts a rigorous due diligence process that is applied to prospective portfolio companies and draws from our Investment Adviser's experience, industry expertise and network of

Table of Contents

contacts. In conducting due diligence, our Investment Adviser uses information provided by companies, financial sponsors and publicly available information as well as information from 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 team leading the investment presents 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. The members of the investment committee receive no compensation from us. These members are employees of our Investment Adviser and receive compensation from our Investment Adviser.

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 structured relative to the other capital in the portfolio company's capital structure.

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.

Mezzanine debt typically has interest-only payments in the early years, payable in cash or in-kind (PIK), 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.

In the case of our senior secured loan and mezzanine debt 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;

Table of Contents

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 refinancing of a portfolio company. We also may turn over investments to better position the portfolio in light of market conditions.

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.

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

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

Attendance at and participation in board meetings or presentations by portfolio companies; and

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

Valuation of Portfolio Investments

Our investments generally consist of 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 independent pricing services or at the bid prices obtained from at least two brokers/dealers, if available, 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 investment 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 of sufficient credit

Table of Contents

quality 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, in consultation 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 of directors 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 for which market quotations are deemed not reflective of the fair value, 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 the investment. The independent valuation firms review preliminary management's valuations in light of their 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 these valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

The FASB, issued guidance related to Fair Value Measurements, or ASC 820, 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 ASC 820 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. ASC 820 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 the PennantPark Investment's financial position or its results of operations for any period prior to October 1, 2008.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

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

Table of Contents

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 PennantPark Investment's own assumptions about how market participants would price the asset or liability.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data are 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 a disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence.

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. Substantially, all of our investments and long-term credit facility are classified as Level 3.

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt 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.

Managerial assistance

We offer managerial assistance to our portfolio companies. As a business development company, we are required to make available such managerial assistance within the meaning of section 55 of the 1940 Act. See Regulation for more information.

Staffing

We do not currently have any employees. Our Investment Adviser and Administrator 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.

Table of Contents

Our Consolidated Portfolio

Our principal investment focus is to provide senior secured loans and mezzanine debt 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. Since inception we have invested in approximately 32 industries. We may invest in other industries if we are presented with attractive opportunities. The following is a list of the industries in which we have invested:

Aerospace and Defense	Environmental Services
Auto Sector	Financial Services
Broadcasting and Entertainment	Grocery
Business Services	Healthcare, Education and Childcare
Buildings and Real Estate	Home & Office Furnishings, Housewares & Durable Consumer Products
Cable Television	Hotels, Motels, Inns and Gaming
Cargo Transportation	Insurance
Chemicals, Plastics and Rubber	Leisure, Amusement, Motion Picture, Entertainment
Communications	Logistics
Consumer Products	Manufacturing / Basic Industries
Containers Packaging & Glass	Media

Distribution

Oil and Gas

Diversified/Conglomerate Services

Other Media

Diversified/Conglomerate Manufacturing

Printing and Publishing

Education

Telecommunications

Energy / Utilities

Retail Store

Listed below are our top ten portfolio companies and industries represented as a percentage of our consolidated portfolio assets (excluding cash equivalents) as of:

Portfolio Company	September 30, 2010	Portfolio Company	September 30, 2009
Learning Care Group, Inc.	5%	i2 Holdings, Ltd.	6%
Veritext Corporation	5%	UP Acquisition Sub Inc.	6%
CT Technologies	4%	Affinion Group Holding, Inc.	5%
Da-Lite Screen Company, Inc.	4%	Brand Energy and Infrastructure	
i2 Holdings, Ltd.	4%	Services, Inc.	5%
Instant Web, Inc.	4%	Saint Acquisition Corp.	5%
Saint Acquisition Corp.	4%	Specialized Technology Resources, Inc.	5%
Sugarhouse HSP Gaming Properties	4%	Trizetto Group, Inc.	5%
Three Rivers Pharmaceutical, L.L.C.	4%	IDQ Holdings, Inc.	4%
Trizetto Group, Inc.	4%	Lyondell Chemical Co.	4%
CT Technologies	6%		

Table of Contents

Industry	September 30, 2010	Industry	September 30, 2009
Business Services	15%	Transportation	4%
Healthcare, Education and Childcare	8%	Chemicals, Plastics and Rubber	9%
Hotels, Motels, Inns and Gaming	7%	Aerospace and Defense	8%
Aerospace and Defense	6%	Business Services	7%
Chemicals, Plastics and Rubber	6%	Healthcare, Education and Childcare	7%
Home and Office Furnishings,		Hotels, Motels, Inns and Gaming	7%
		Oil and Gas	6%
Housewares and Durable			
Consumer Products	6%	Consumer Products	5%
Education	5%	Energy/Utilities	5%
Insurance	4%	Insurance	5%
Oil and Gas	4%	Transportation	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 an 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 trade 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.

On September 30, 2010, our portfolio consisted of 43 companies and was invested 35% in senior secured loans, 24% in second lien secured debt, 34% in subordinated debt, and 7% in preferred and common equity investments.

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 September 30, 2010. Percentages shown for class of investment securities held by us represent percentage of voting ownership and not 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. For additional information see our Consolidated Schedule of Investments in our September 30, 2010 consolidated financial statements included elsewhere in this prospectus.

The portfolio companies are presented in three categories: Companies 25% or more owned which represent portfolio companies where we directly or indirectly own 25% or more of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the 1940 Act; Companies 5% to 24% owned which represent portfolio companies where we directly or indirectly own 5% or more but less than 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 5% or less 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 (except those of SBIC LP) are pledged as collateral under our credit facility. Unless otherwise noted, we held no voting board membership on any of our portfolio companies.

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Voting Percentage Ownership ⁽¹⁾
Companies 25% or More Owned			
SuttonPark Holdings, Inc. 590 Madison Avenue, 15 th Floor New York, NY 10022	Business Services	First Lien Secured Debt Subordinated Debt Preferred Equity Common Equity	100% ⁽³⁾
Companies 5% to 24% Owned			
Performance Holdings, Inc. One Performance Way Chapel Hill, NC 27514	Leisure, Amusement, Motion Pictures, Entertainment	Second Lien Secured Debt Subordinated Debt Common Equity	6.2%
Companies 5% or Less Owned			
Affinion Group Holdings, Inc. 100 Connecticut Avenue Norwalk, CT 06850	Consumer Products	Subordinated Debt	
AHC Mezzanine, LLC (Advanstar Inc.) 350 Park Avenue New York, NY 10022	Other Media	Preferred Equity	0.1%
Airvana Networks Solution, Inc. 19 Alpha Road Chelmsford, MA 01824	Communications	First Lien Secured Debt	
Aquilex Holdings, LLC	Diversified / Conglomerate Services	Subordinated Debt	

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

3344 Peachtree Roads NE, Suite 2100

Atlanta, GA 30326

Brand Energy and Infrastructure Services, Inc.

Energy / Utilities

Second Lien Secured Debt

2502 South Main Street

Kennesaw, GA 30144

Birch Communications, Inc.

Telecommunications

First Lien Secured Debt

3060 Peachtree Road NW, Suite 1065

Atlanta, GA 30305

Table of Contents

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Voting Percentage Ownership ⁽¹⁾
CEA Autumn Management, L.L.C. 54 Thompson St. New York, NY 10012	Broadcasting and Entertainment	Common Equity	3.5%
CEVA Group PLC 25 St. George Street London W1s 1fs United Kingdom	Logistics	First Lien Secured Debt	
Chester Downs and Marina, LLC 777 Harrah s Blvd Chester, PA 19103	Hotels, Motels, Inns and Gaming	First Lien Secured Debt	
Columbus International, Inc. Suite 205-207 Dowell House Cr. Roebuck & Palmetto Sts. Bridgetown Barbados, West Indies	Communications	First Lien Secured Debt	
Consolidated Foundries, Inc. 4200 Valley Blvd. Pomona, CA 91766	Aerospace and Defense	Subordinated Debt Preferred Equity Common Equity	0.7%
CT Technologies Intermediate Holdings, Inc. 875 North Michigan Avenue Chicago, IL 60601	Business Services	Subordinated Debt Preferred Equity Common Equity	2.6%
Da-Lite Screen Company, Inc. 3100 North Detroit Street, P.O. Box 137 Warsaw, IN 46581	Home and Office Furnishings, Housewares and Durable Consumer Products	Subordinated Debt	
EnviroSolutions, Inc. 11220 Asset Loop, Suite 201 Manassas, VA 20109	Environmental Services	First Lien Secured Debt Second Lien Secured Debt Common Equity	4.9% ^{(2), (3)}
Fairway Group Acquisition Company 2284 12 th Avenue	Grocery	Warrants First Lien Secured Debt	

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

New York, NY 10027			
Generics International (U.S.), Inc.	Healthcare, Education and Childcare	Second Lien Secured Debt	
130 Vintage Drive			
Huntsville, AL 35811			
Greatwide Logistics Services, L.L.C.	Cargo Transport	Second Lien Secured Debt	1.9%
12404 Park Central Dr., Ste. 300s		Common Equity	
Dallas, TX 75251-1803			
Hanley-Wood, L.L.C.	Other Media	First Lien Secured Debt	
One Thomas Circle, NW St 600			
Washington, DC 20005			
i2 Holdings Ltd.	Aerospace and Defense	Subordinated Debt	3.3%
The Visual Space Capital Park		Preferred Equity	
Fulbourn Cambrideshire, CB21 5XH		Common Equity	
United Kingdom			
Instant Web, Inc.	Printing and Publishing	First Lien Secured Debt	
7951 Powers Boulevard			
Chanhassen, MN 55317			
Jacuzzi Brands Corp.	Home and Office Furnishings, Housewares and	First Lien Secured Debt	
777 S. Flagler Drive, Suite 1100		Durable Consumer Products	
West Palm Beach, FL 33401			
K2 Pure Solutions NoCal, L.P.	Chemicals, Plastics and Rubber	First Lien Secured Debt	
3515 Massillion Road, Suite 290			
Uniontown, OH 44685			

Table of Contents

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Voting Percentage Ownership ⁽¹⁾
Kadmon Holdings, L.L.C.	Healthcare, Education and Childcare		
Alexandria Center for Life Sciences			
450 East 29 th Street, 5 th Floor			
New York, NY 10016			