

PENNANTPARK INVESTMENT CORP

Form 497

February 08, 2011

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**Filed Pursuant to Rule 497  
File No. 333-150033**

**Prospectus Supplement**

**To the Prospectus dated**

**January 28, 2011**

**8,000,000 Shares**

**Common Stock**

**\$12.40 per share**

We are offering for sale 8,000,000 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 7, 2011 was \$13.05 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](http://www.pennantpark.com). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information free of charge. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement.

**Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in us in **Risk Factors** beginning on page 9 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.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$ 12.40	\$ 99,200,000
Underwriting discounts and commissions (sales load)	\$ 0.589	\$ 4,712,000
Proceeds to PennantPark Investment Corporation (before estimated expenses of \$325,000)	\$ 11.811	\$ 94,488,000

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The underwriters may also purchase up to an additional 1,200,000 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 \$114,080,000, the total underwriting discount and commissions (sales load) paid by us will be \$5,418,800, and total proceeds, before expenses, will be \$108,661,200.

The underwriters expect to deliver the shares on or about February 11, 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 8, 2011.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus when considering whether to purchase any securities offered by this prospectus. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell and seeking offers to buy, securities only in jurisdictions where offers are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement and the accompanying prospectus. Our business, financial condition, results of operations and prospects may have changed since then. We will update these documents to reflect material changes only as required by law.

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**SUPPLEMENTAL PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider 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

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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

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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.

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### ***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.



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### **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

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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, 15<sup>th</sup> Floor, New York, NY 10022. Our common stock is quoted on NASDAQ Global Select Market under the symbol "PNNT". Our Internet website address is [www.pennantpark.com](http://www.pennantpark.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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The following table will assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The following table should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus supplement or the accompanying prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us.

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

- (1) The underwriting discounts and commissions with respect to the shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.
- (2) Amount reflects estimated offering expenses of approximately \$325,000 and is based on the offering of 8,000,000 shares at the public offering price of \$12.40 per share.
- (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

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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:

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Total expenses incurred</b>	<b>\$ 106</b>	<b>\$ 215</b>	<b>\$ 322</b>	<b>\$ 582</b>

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.

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to 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.

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

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.

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**USE OF PROCEEDS**

We estimate that net proceeds we will receive from the sale of 8,000,000 shares of our common stock in this offering will be approximately \$94.2 million (or approximately \$108.3 million if the underwriters fully exercise their overallotment option), in each case based on a public offering price of \$12.40 per share, after deducting the underwriting discounts and commissions of \$4.7 million (or approximately \$5.4 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$325,000 payable by us.

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 8,000,000 shares of our common stock based on the public offering price of \$12.40 per share, after deducting the underwriting discounts and commissions of \$4.7 million payable by us and estimated offering expenses of approximately \$325,000, (\$11.77 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 <sup>(1)</sup>
Cash and cash equivalents	\$ 3,022,137	\$ 97,185,137
Total assets	717,319,253	811,482,253
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
<b>Stockholders' Equity</b>		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized, 36,223,950 shares issued and outstanding, 44,223,950 shares issued and outstanding, as-adjusted, respectively.	36,224	44,224
Paid in capital in excess of par	429,267,895	523,422,895
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	497,553,962
Total capitalization	\$ 681,836,712	\$ 775,999,712

(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 7, 2011, the last reported closing price of our common stock was \$13.05 per share.

Period	NAV <sup>(1)</sup>	Closing Sales Price		High Sales	Low Sales	Dividends Declared
		High	Low	Price to NAV <sup>(2)</sup>	Price to NAV <sup>(2)</sup>	
<b>Fiscal year ending September 30, 2011</b>						
Second quarter (through February 7, 2011)	\$ N/A	\$ 13.05	\$ 12.07	N/A%	N/A%	\$ 0.27 <sup>(3)</sup>
First quarter	11.14	12.75	10.60	114	95	0.26
<b>Fiscal year ending September 30, 2010</b>						
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
<b>Fiscal year ended September 30, 2009</b>						
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
<b>Fiscal year ended September 30, 2008</b>						
Fourth quarter	10.00	8.50	5.92	85	59	0.24
Third quarter	10.77	8.60	7.05	80	65	0.22
Second quarter	10.26	11.31	8.38	110	82	0.22
First quarter	12.07	14.49	9.08	120	75	0.22
<b>Fiscal year ended September 30, 2007</b>						
Fourth quarter	12.83	14.76	12.61	115	98	0.22
Third quarter*	13.74	15.03	14.04	109	102	0.14

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period. 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
<b>Statement of operations data:</b>					
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 <sup>(1)</sup>	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)
<b>Per share data:</b>					
Net asset value (at period end)	11.14	10.69	11.85	10.00	12.83
Net investment income <sup>(2)</sup>	0.31	1.09	1.08	0.88	0.35
Net realized and unrealized gain (loss) <sup>(2)</sup>	0.40	(0.53)	0.62	(2.81)	(1.15)
Net increase (decrease) in net assets resulting from operations <sup>(2)</sup>	0.71	0.56	1.70	(1.93)	(0.80)
Distributions declared <sup>(2),(6)</sup>	(0.26)	(1.09)	(0.96)	(0.90)	(0.36)
<b>Balance sheet data (at period end):</b>					
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 <sup>(5)</sup>	233,641 <sup>(5)</sup>	175,475 <sup>(5)</sup>	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
<b>Other data:</b>					
Total return <sup>(3)</sup>	17.91%	44.79%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end) <sup>(4)</sup>	45	43	42	37	38
Yield on debt portfolio (at period end) <sup>(4)</sup>	13.4%	12.7%	11.4%	11.1%	10.1%

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- (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.

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

(dollar amounts in thousands, except per share data)

	<b>2011 Q1</b>
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

	<b>2010</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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

	<b>2009</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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

	<b>2008</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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

	<b>2007</b>		
	<b>Q4</b>	<b>Q3</b>	<b>Q2*</b>
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)

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

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

#### **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

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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;

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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

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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

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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

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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

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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.

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**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

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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 <sup>(1)</sup>	\$ 255.8	\$	\$ 255.8	\$	\$
SBA debentures <sup>(2)</sup>	30.0				30.0
Subtotal debt outstanding <sup>(3)</sup>	285.8		255.8		30.0
Unfunded investments <sup>(4)</sup>	18.6		18.6		
<b>Total contractual obligations</b>	<b>\$ 304.4</b>	<b>\$</b>	<b>\$ 274.4</b>	<b>\$</b>	<b>\$ 30.0</b>

- (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.



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### **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

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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.

<b>Underwriter Names</b>	<b>Number of Shares</b>
Morgan Stanley & Co. Incorporated	2,880,000
J.P. Morgan Securities LLC	1,840,000
Stifel, Nicolaus & Company, Incorporated	1,360,000
FBR Capital Markets & Co.	480,000
Keefe, Bruyette & Woods, Inc.	480,000
Ladenburg Thalmann & Co. Inc.	480,000
RBC Capital Markets, LLC	480,000
Total	8,000,000

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 \$0.589 per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$0.10 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' over-allotment option to purchase up to an additional 1,200,000 shares.

	<b>Per Share</b>	<b>Without Option</b>	<b>With Option</b>
Public offering price	\$ 12.40	\$ 99,200,000	\$ 114,080,000
Underwriting discount	\$ 0.589	\$ 4,712,000	\$ 5,418,800
Proceeds to PennantPark Investment Corporation (before offering expenses of \$325,000)	\$ 11.811	\$ 94,488,000	\$ 108,661,200

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### **Over-allotment Option**

We have granted an option to the underwriters to purchase up to 1,200,000 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 over-allotments. 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

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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.

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**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

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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.



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**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

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

	December 31, 2010 (unaudited)	September 30, 2010
<b>Assets</b>		
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
<b>Total assets</b>	<b>717,319,253</b>	<b>711,493,846</b>
<b>Liabilities</b>		
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
<b>Total liabilities</b>	<b>313,928,291</b>	<b>324,918,623</b>
<b>Net Assets</b>		
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
<b>Total net assets</b>	<b>\$ 403,390,962</b>	<b>\$ 386,575,223</b>
<b>Total liabilities and net assets</b>	<b>\$ 717,319,253</b>	<b>\$ 711,493,846</b>
<b>Net asset value per share</b>	<b>\$ 11.14</b>	<b>\$ 10.69</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

	<b>Three Months Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Investment income:</b>		
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	
<b>Total investment income</b>	<b>19,979,181</b>	<b>13,598,485</b>
<b>Expenses:</b>		
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
<b>Expenses before taxes</b>	<b>8,689,429</b>	<b>6,253,635</b>
Excise tax (See Note 2)	118,967	106,962
<b>Total expenses</b>	<b>8,808,396</b>	<b>6,360,597</b>
<b>Net investment income</b>	<b>11,170,785</b>	<b>7,237,888</b>
<b>Realized and unrealized gain (loss) on investments and credit facility:</b>		
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)
<b>Net change in unrealized appreciation</b>	<b>12,058,076</b>	<b>18,042,224</b>
Net realized and unrealized gain from investments and credit facility	14,351,438	1,438,359
<b>Net increase in net assets resulting from operations</b>	<b>\$ 25,522,223</b>	<b>\$ 8,676,247</b>
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)**

	<b>Three Months Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Increase in net assets from operations:</b>		
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)
<b>Net increase in net assets resulting from operations</b>	<b>25,522,223</b>	<b>8,676,247</b>
<b>Distributions to stockholders:</b>		
Distributions from net investment income	(9,418,227)	(6,452,193)
<b>Capital Share Transactions:</b>		
Issuance of shares of common stock, net of offering costs		3,344,000
Reinvestment of dividends	711,743	
<b>Total increase in net assets</b>	<b>16,815,739</b>	<b>5,568,054</b>
<b>Net Assets:</b>		
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
<b>Capital Share Activity:</b>		
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)**

	<b>Three Months Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
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		