

PENNANTPARK INVESTMENT CORP

Form 497

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

**Subject to Completion, Dated August 17, 2010**

**Preliminary Prospectus Supplement**

**To the Prospectus dated**

**February 24, 2010**

**4,000,000**

## **Common Stock**

We are offering for sale 4,000,000 shares of our common stock. We are offering shares of our common stock at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders on February 2, 2010. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See **Risk Factors** beginning on page 9 of the accompanying prospectus and page S-8 of this prospectus supplement, and **Sales of Common Stock Below Net Asset Value** on page 51 of the accompanying prospectus and page S-13 of this prospectus supplement.

Our common stock is traded on the NASDAQ Global Select Market under the symbol **PNNT**. The last reported closing price for our common stock on August 17, 2010 was \$10.67 per share. The net asset value of our common stock on June 30, 2010 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$10.94 per share.

PennantPark Investment Corporation, a Maryland corporation, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940 (the **1940 Act**). Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. We are externally managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read them before you invest and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. This information is available free of charge by contacting us at 590 Madison Avenue, New York, NY 10022 or by telephone at (212) 905-1000 or on our website at [www.pennantpark.com](http://www.pennantpark.com). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information free of charge. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement.

**Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 9 of the accompanying prospectus and S-9 of this prospectus supplement, and **Sales of Common Stock Below Net Asset Value** on page 51 of the accompanying prospectus and page S-13 in this prospectus supplement.**

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

is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions (sales load)	\$	\$
Proceeds to PennantPark Investment Corporation (before estimated expenses of \$276,000)	\$	\$

The underwriters may also purchase up to an additional 600,000 shares from us at the public offering price, less the underwriting discounts, within 30 days from the date of this prospectus supplement to cover overallocments. If the underwriters exercise this option in full, the total public offering price will be \$ , the total underwriting discount and commissions (sales load) paid by us will be \$ , and total proceeds, before expenses, will be \$ .

The underwriters expect to deliver the shares on or about , 2010.

*Joint-bookrunners*

**J.P. Morgan**

**Morgan Stanley**

**SunTrust Robinson Humphrey**

**Wells Fargo Securities**

The date of this preliminary prospectus supplement is , 2010.

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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. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the terms **we**, **us**, **our** and **PennantPark Investment** refer to PennantPark Investment Corporation; **PennantPark Investment Advisers** or the **Investment Adviser** refers to PennantPark Investment Advisers, LLC; **PennantPark Investment Administration** or the **Administrator** refers to PennantPark Investment Administration, LLC.*

**PennantPark Investment Corporation**

PennantPark Investment Corporation, a Maryland corporation, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended (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 investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans, and equity investments. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt, certain senior secured investments, and to a lesser extent, equity investments.

Our wholly-owned Small Business Investment Company (the **SBIC**), PennantPark SBIC LP (**SBIC LP**), was organized as a Delaware limited partnership on May 7, 2010 and has received a license, which became effective July 30, 2010, from the Small Business Administration (**SBA**) to operate as an SBIC under Section 301(c) of the Small Business Investment Act of 1958 (the **1958 Act**). Our SBIC's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP invests in SBA eligible businesses that meet the investment criteria used by PennantPark Investment. As an SBIC, PennantPark SBIC LP is subject to a variety of regulations and oversight by the SBA concerning, among other things, the size and nature of the companies in which it may invest as well as the structure of those investments.

PennantPark Investment seeks to create a diversified portfolio that includes mezzanine debt, senior secured loans, and equity investments by investing approximately \$10 to \$50 million of capital, on average, in the securities of middle-market companies. In this prospectus supplement and the accompanying prospectus, 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.

**About PennantPark Investment Advisers**

Our investment activities are managed by the Investment Adviser under an investment management agreement, (the **Investment Management Agreement**). The Investment Adviser is responsible for sourcing potential investments, conducting research on prospective investments, analyzing investment opportunities, structuring our investments and monitoring our investments on an ongoing basis. The Investment Adviser is led by Arthur H. Penn, its founder and the founder of PennantPark Investment. Mr. Penn has over 23 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. He has

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been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in each of these businesses. Mr. Penn is a Co-founder and former Managing Partner of Apollo Investment Management, L.P., which is the Investment Adviser of Apollo Investment Corporation, or Apollo Investment, a publicly traded business development company. Mr. Penn served as the Chief Operating Officer and a member of the investment committee of Apollo Investment from its inception in April 2004 through February 2006 and was President and Chief Operating Officer from February 2006 through November 2006. During Mr. Penn's tenure with Apollo Investment, it invested approximately \$2.8 billion in 73 companies in partnership with 54 different financial sponsors.

During his more than 23-year career in the financial services industry, Mr. Penn has developed a network of financial sponsor relationships as well as relationships with management teams, investment bankers, attorneys and accountants that we believe will provide us with access to substantial investment opportunities.

Our Investment Adviser has three experienced investment professionals, in addition to Mr. Penn. These professionals, Sal Giannetti, Whit Williams and Jose Briones, have in aggregate approximately 55 years of experience in the mezzanine, private equity and leveraged finance businesses. See Management, Certain Relationships and Transactions Investment Management Agreement, and Risk Factors Risks Relating to our Business and Structure in the accompanying prospectus.

### **About PennantPark Investment Administration**

Under our administration agreement, (the Administration Agreement), the Administrator furnishes us with clerical, bookkeeping and record keeping services and also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC. The Administrator oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to provide such assistance.

Our Administrator has experienced professionals including Aviv Efrat, who serves as our Chief Financial Officer and Treasurer. Mr. Efrat has approximately 20 years of experience in finance and administration of registered investment companies. See Certain Relationships and Transactions Administration Agreement, and Risk Factors Risks Relating to our Business and Structure in the accompanying prospectus.

### **Market Opportunity**

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

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

**We believe that the current credit market dislocation improves the risk/reward of our investments.** In the current credit environment of capital preservation, commercial banks, finance companies, collateralized loan obligation funds and hedge funds have reduced lending to middle-market and non-investment grade borrowers, resulting in less competition in our market, more conservative capital structures, higher yields relative to the cost of capital and stronger covenants.

**We believe there is a large pool of uninvested private equity capital which is likely to seek to combine their capital with sources of debt capital to complete private investments.** We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with mezzanine

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loans and/or senior secured loans provided by other sources, and we believe that our capital is well-positioned to partner with such equity investors. We expect such activity to be funded by the substantial amounts of private equity capital that have been raised in recent years.

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

### **Competitive Advantage**

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

#### ***Disciplined Investment Approach with Strong Value Orientation***

We employ a disciplined approach in selecting investments that meet our value-oriented investment criteria employed by the Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We believe our approach has and will continue to enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through our Investment Adviser, conduct a rigorous due diligence process that draws from our Investment Adviser's experience, industry expertise and network of contacts. Among other things, our due diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations.

#### ***Ability to Source and Evaluate Transactions through our Investment Adviser's Research Capability and Established Network***

The management team of the Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that we believe enable us to evaluate investment opportunities effectively in numerous industries, as well as provide us access to substantial information concerning those industries. We identify potential investments both through active origination and through dialogue with numerous financial sponsors, management teams, members of the financial community and corporate partners with whom professionals of our Investment Adviser have long-term relationships.

#### ***Flexible Transaction Structuring***

Our Investment Adviser seeks to minimize the risk of capital loss without foregoing potential for capital appreciation. In making investment decisions, we seek to invest in companies that we believe can generate positive risk-adjusted returns.

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

#### ***Longer Investment Horizon with Attractive Publicly Traded Model***

Unlike private equity and venture capital funds, we are not subject to standard periodic capital return requirements. Such requirements typically stipulate that funds raised by a private equity or venture capital fund,

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together with any capital gains on such invested funds, can only be invested once and must be returned to investors after a pre-agreed time period. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles enables us to generate returns on invested capital and to be a better long-term partner for our portfolio companies.

### **Competition**

Our primary competitors provide financing to middle-market companies and include other business development companies, commercial and investment banks, commercial financing companies, collateralized loan obligation funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available since the downturn in the credit markets, which began in mid-2007. We believe this has resulted in a less competitive environment for making new investments.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company.

We use the industry information available to our Investment Adviser to assess investment risks and determine appropriate pricing for our investments in portfolio companies. We benefit from the relationships of our Investment Adviser, which enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we invest. For additional information concerning the competitive risks we face, please see Risk Factors Risks Relating to our Business and Structure We operate in a highly competitive market for investment opportunities in the accompanying prospectus.

### **Leverage**

We maintain a five-year, multi-currency \$300.0 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 assets of SBIC LP in the amount of \$20.5 million as of June 30, 2010), with a group of lenders, under which we had \$256.8 million (including a \$5.6 million temporary draw) and \$225.1 million (including a \$7.0 million temporary draw) of indebtedness outstanding as of June 30, 2010 and September 30, 2009, respectively. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. See note 10 to our consolidated financial statements for the quarter ended June 30, 2010 in this prospectus supplement.

### **Operating and Regulatory Structure**

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of PennantPark Investment. PennantPark Investment Advisers is an Investment Adviser that is registered under the Investment Advisers Act of 1940, as amended, (the Advisers Act ). Under our Investment Management Agreement, we pay PennantPark Investment Advisers an annual base management fee based on our gross assets as well as an incentive fee based on our performance. See Certain Relationships and Transactions Investment Management Agreement in the accompanying prospectus.

As a business development company, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See Regulation in the accompanying prospectus. We have elected to be treated for federal income tax purposes under the Code as a RIC. For more information, see Material U.S. Federal Income Tax Considerations in the accompanying prospectus.



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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 provide serve as the investment adviser and administrator to SBIC LP. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and regulates the types of financings and prohibits investing in certain industries. For more information, see **Risk Factors** regarding our licensed SBIC in this prospectus supplement on page S-8.

### **Use of Proceeds**

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding obligations under our credit facility, to invest in new or existing portfolio companies, to capitalize our SBIC subsidiary or for other general corporate purposes. See **Use of Proceeds** in this prospectus supplement for information regarding our outstanding borrowings as of June 30, 2010, the corresponding interest rate charged on such borrowings as of that date and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.

### **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. For more information, see **Distributions** in the accompanying prospectus.

### **Dividend Reinvestment Plan**

We have adopted an opt-out dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock rather than receiving the cash dividends. Registered stockholders must notify our transfer agent in writing if they wish to opt-out of the dividend reinvestment plan. For more information, see **Dividend Reinvestment Plan** in the accompanying prospectus.

### **Recent Developments**

On February 2, 2010, our common stockholders voted to allow us to issue common stock at a price below the net asset value per share for a period of one year ending February 2, 2011. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock; however we do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interest to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share.

On August 3, 2010, our board of directors approved an issuance of shares of common stock at a price below our current net asset value per share and at a price per share that approximates the market value of our shares traded on the NASDAQ Global Select Market, less the underwriting discounts, at the time of sale. Our board of directors unanimously believed that such issuance was in our best interest and in the best interests of our stockholders.

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

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Effective July 30, 2010, PennantPark Investment's wholly-owned subsidiary, SBIC LP, received a license from the SBA to operate as an SBIC under Section 301(c) of 1958 Act. As an SBIC, SBIC LP will be subject to a variety of regulations and oversight by the SBA concerning, among other things, the size and nature of the companies in which it may invest as well as the structure of those investments.

In connection with the SBIC license, SBIC LP has received a debt commitment from the SBA of \$33.5 million on August 5, 2010. SBA-guaranteed debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150 million, which is up to twice its regulatory capital. This means that SBIC LP may access the maximum borrowing if it has \$75 million in regulatory capital, which generally equates to the amount of its equity capital. However, we may capitalize SBIC LP with a lesser amount.

## **Our Corporate Information**

Our administrative and principal executive offices are located at 590 Madison Avenue, 15<sup>th</sup> Floor, New York, NY 10022. Our common stock is quoted on NASDAQ Global Select Market under the symbol *PNNT*. Our Internet website address is *www.pennantpark.com*. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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

<b>Stockholder transaction expenses (as a percentage of the offering price)</b>	
Sales load	5.00% <sup>(1)</sup>
Offering expenses	0.66% <sup>(2)</sup>
<b>Total common stockholder expenses</b>	<b>5.66%</b>
<b>Estimated annual expenses (as a percentage of average net assets attributable to common shares)<sup>(3)</sup></b>	
Management fees	3.90% <sup>(4)</sup>
Incentive fees payable under the Investment Management Agreement	2.22% <sup>(5)</sup>
Interest payments on borrowed funds	1.01% <sup>(6)</sup>
Other expenses	1.35% <sup>(7)</sup>
<b>Total annual expenses</b>	<b>8.48%</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 \$276,000 and based on the 4,000,000 shares offered in this offering at the last reported closing price of \$10.67 per share of our common stock on August 17, 2010.
- (3) Net assets attributable to common shares equals average net assets for the nine months ended June 30, 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 nine months ended June 30, 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 nine months ended June 30, 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 June 30, 2010, we had \$43.2 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$256.8 million in borrowings outstanding under our \$300.0 million credit facility. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our credit facility. After completing any such offering, we intend to continue to borrow under our credit facility to finance portfolio investments and are permitted to do so under the terms of our credit facility. We have estimated the interest payments on borrowed funds to take this into account;

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

- (7) **Other expenses** includes our general and administrative expenses, professional fees, directors' fees, insurance costs, expenses of our dividend reinvestment plan, and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the nine months ended June 30, 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 5% sales load (underwriting discounts and commissions) and offering expenses totaling 0.65%, (2) total net annual expenses of 6.26% of average net assets attributable to common shares for the nine months ended June 30, 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>
Total expenses incurred	\$ 115	\$ 230	\$ 343	\$ 611

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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**RISK FACTORS**

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

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

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

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

In connection with the SBIC license, SBIC LP has received a debt commitment from the SBA of \$33.5 million on August 5, 2010. SBA-guaranteed debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150 million, which is up to twice its regulatory capital. This means that SBIC LP may access the maximum borrowing if it has \$75 million in regulatory capital, which generally equates to the amount of its equity capital. However, we may capitalize SBIC LP with a lesser amount.

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

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

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

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our consolidated net ordinary income and net capital gain income, including income from our SBIC subsidiary. We will be partially dependent on our SBIC subsidiary for cash

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

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

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

We continuously evaluate opportunities to grow our business. We have used, and will continue to use, the proceeds of offerings of securities, whether in the form of debt or equity, and credit facility in accordance with our investment objectives. If we choose to achieve our investment objectives through the acquisition of investment vehicles, pools of assets or complementary businesses, we may not be able to integrate these opportunities on a cost-effective basis. The dedication of management resources to such growth initiatives may detract attention from our day-to-day business, and may not permit us to achieve our long term goals. In addition, we may be subject to risks that are associated with acquired investment vehicles or investment portfolios, such as litigation or poor performance of underlying investments. The failure to manage such growth successfully could negatively impact our performance.

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**FORWARD-LOOKING STATEMENTS**

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

our future operating results;

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

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

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

the impact of investments that we expect to make;

the impact of fluctuations in interest rates on our business;

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

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

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

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

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**USE OF PROCEEDS**

We estimate that net proceeds we will receive from the sale of 4,000,000 shares of our common stock in this offering will be approximately \$40.3 million (or approximately \$46.4 million if the underwriters fully exercise their overallotment option), in each case based on a public offering price of \$10.67 per share, which was the last reported closing price of our common stock on August 17, 2010, after deducting the underwriting discounts and commissions of \$2.1 million (or approximately \$2.5 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$276,000 payable by us. The amount of net proceeds may be more or less than the amount described in this prospectus supplement depending on the public offering price of the common stock and the actual number of shares of common stock we sell in the offering, both of which will be determined at pricing.

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce outstanding obligations under our credit facility, to invest in new or existing portfolio companies, to capitalize our SBIC 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 June 30, 2010, we had \$43.2 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$256.8 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 + 100 basis points per annum. At June 30, 2010, the interest rate at that time was 1.39%. 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 in the amount of \$20.5 million as of June 30, 2010). Amounts repaid under our credit facility will remain available for future borrowings.

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

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

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and capitalization on June 30, 2010 (1) on an actual basis and (2) on an as-adjusted to reflect the effects of the sale of 4,000,000 shares of our common stock in this offering at an offering price of \$10.67 per share, which was the last reported closing price of our common stock on August 17, 2010, (\$10.07 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 June 30, 2010 (unaudited)	
	Actual	As-adjusted for the offering <sup>(1)</sup>
Cash and cash equivalents	\$ 1,303,502	\$ 41,573,502
Total assets	637,038,519	677,308,519
Borrowings under senior secured credit facility (cost \$256,800,000)	236,076,000	236,076,000
<b>Stockholders' Equity</b>		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized, 31,558,772 shares issued and outstanding, 35,558,772 shares issued and outstanding, as adjusted, respectively.	31,559	35,559
Paid in capital in excess of par	384,602,224	424,868,224
Undistributed net investment income	2,242,960	2,242,960
Accumulated net realized loss on investments and cash equivalents	(67,139,005)	(67,139,005)
Net unrealized appreciation on investments	4,804,312	4,804,312
Net unrealized depreciation on credit facility	20,724,000	20,724,000
Total stockholders' equity	345,266,050	385,536,050
Total capitalization	\$ 581,342,050	\$ 621,612,050

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

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Our common stock is traded on the NASDAQ Global Select Market under the symbol **PNNT**. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market. On August 17, 2010, the last reported closing price of our common stock was \$10.67 per share.

Period	Closing Sales Price			High Sales Price to NAV <sup>(2)</sup>	Low Sales Price to NAV <sup>(2)</sup>	Declared Dividends
	NAV <sup>(1)</sup>	High	Low			
<b>Fiscal year ending September 30, 2010</b>						
Fourth quarter (through August 17, 2010)	\$ N/A	\$ 10.69	\$ 9.17	N/A%	N/A%	\$ N/A
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.

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

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

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 \$9.55 and \$8.11 as of June 30, 2010 and September 30, 2009, respectively. Our NAV was \$10.94 and \$11.85, as of June 30, 2010 and September 30, 2009, respectively. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

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

At our meeting of stockholders held on February 2, 2010, our stockholders approved our ability to sell shares of our common stock below net asset value ( NAV ) per share in one or more public offerings of our common stock. We now have the ability to sell or otherwise issue our shares of our common stock at any level of discount from NAV per share during the period beginning on February 2, 2010 and expiring on the one year anniversary of the date of the meeting. In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our board of directors, a majority of our directors who have no financial interest in the sale and a majority of our independent directors considered a variety of factors, including:

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

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

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

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

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

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

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

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

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

The offering of common stock being made pursuant to this prospectus supplement is at a price below our most recently reported NAV on June 30, 2010 of \$10.94 per share. Our board of directors also considered the fact that sales of shares of common stock at a discount will benefit our Investment Adviser, as the Investment Adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of PennantPark Investment or from the offering of common stock at premium to NAV per share.

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

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

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

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

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

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

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

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experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than stockholders who do participate in the offering. All stockholders may also experience a decline in the market price of their shares, which often reflects, to some degree, announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

The following chart illustrates the level of NAV dilution that would be experienced by a stockholder who does not participate in the offering. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of June 30, 2010. NAV has not been finally determined for any day after June 30, 2010. The following example assumes a sale of 4,000,000 shares at \$10.67 per share, which was the last reported closing price of our common stock on August 17, 2010, with a 5% underwriting discount and \$276,000 of expenses (\$10.07 per share net).

	Prior to Sale Below NAV	Following Sale	% Change
<b>Offering Price</b>			
Price per share to public		\$ 10.67	
Net proceeds per share to issuer		\$ 10.07	
<b>Decrease to NAV</b>			
Total shares outstanding	31,558,772	35,558,772	12.67%
NAV per share	\$ 10.94	\$ 10.84	(0.91)%
<b>Dilution to Non-participating Stockholder A</b>			
Shares held by stockholder	31,559	31,559	
Percentage held by stockholder	0.10%	0.09%	(10.00)%
<b>Total Asset Values</b>			
Total NAV held by stockholder	\$ 345,255	\$ 342,100	(0.91)%
Total investment by stockholder (assumed to be \$10.94 per share)	\$ 345,255	\$ 345,255	
Total dilution to stockholder (total NAV less total investment)		\$ (3,155)	
<b>Per Share Amounts</b>			
NAV per share held by stockholder	\$ 10.94	\$ 10.84	(0.91)%
Investment per share held by stockholder	\$ 10.94	\$ 10.94	
Dilution per share held by stockholder (NAV per share less investment per share)		\$ (0.10)	(0.91)%
<b>Impact on Existing Stockholders who Participate in the Offering</b>			

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also

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experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following chart illustrates the level of dilution and accretion in the offering for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 3,750 shares, which is 0.05% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 11,250 shares, which is 0.15% of the offering rather than its 0.10% proportionate share). The table below is shown based upon financial information as of June 30, 2010. NAV has not been finally determined for any day after June 30, 2010. The following example assumes a sale of 4,000,000 shares at \$10.67 per share, which was the last reported closing price of our common stock on August 17, 2010, with a 5% underwriting discount and commissions and \$276,000 of expenses (\$10.07 per share net).

	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
<b>Offering Price</b>					
Price per share to public		\$ 10.67		\$ 10.67	
Net proceeds per share to issuer		\$ 10.07		\$ 10.07	
<b>Increases in Shares and Decrease to NAV</b>					
Total shares outstanding	31,558,772	35,558,772	12.67%	35,558,772	12.67%
NAV per share	\$ 10.94	\$ 10.84	(0.91)%	\$ 10.84	(0.91)%
<b>(Dilution) to Participating Stockholder A</b>					
Shares held by stockholder	31,559	33,559	6.34%	37,559	19.01%
Percentage held by stockholder	0.10%	0.09%	(10.00)%	0.11%	10.00%
<b>Total Asset Values</b>					
Total NAV held by stockholder	\$ 345,255	\$ 363,780	5.37%	\$ 407,140	17.92%
Total investment by stockholder (assumed to be \$10.94 per share on shares held prior to sale)	\$ 345,255	\$ 366,595	6.18%	\$ 409,275	18.54%
Total (dilution) to stockholder (total NAV less total investment)		\$ (2,815)		\$ (2,135)	
<b>Per Share Amounts</b>					
NAV per share held by stockholder	\$ 10.94	\$ 10.84	(0.91)%	\$ 10.84	(0.91)%
Investment per share held by stockholder (assumed to be \$10.94 per share on shares held prior to sale)	\$ 10.94	\$ 10.92	(0.18)%	\$ 10.90	(0.37)%
(Dilution) per share held by stockholder (NAV per share less investment per share)		\$ (0.08)	(0.73)%	\$ (0.06)	(0.55)%

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

The following chart illustrates the level of dilution or accretion for new investors that will be experienced by a new investor who purchases the same percentage (0.10%) of the shares in the offering as the stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of June 30, 2010. NAV has not been finally determined for any day after June 30, 2010. The following example assumes a sale of 4,000,000 shares at \$10.67 per share, which was the last reported closing price of our common shares on August 17, 2010, with a 5% underwriting discount and commissions and \$276,000 of expenses (\$10.07 per share net).

	Prior to Sale Below NAV	Following Sale	% Change
<b>Offering Price</b>			
Price per share to public		\$ 10.67	
Net proceeds per share to issuer		10.07	
<b>Decrease to NAV</b>			
Total shares outstanding	31,558,772	35,558,772	12.67%
NAV per share	\$ 10.94	\$ 10.84	(0.91)%
<b>Accretion to New Stockholder A</b>			
Shares held by stockholder		4,000	
Percentage held by stockholder		0.01%	
<b>Total Asset Values</b>			
Total NAV held by stockholder		\$ 43,360	
Total investment by stockholder		\$ 42,680	
Total accretion to stockholder (total NAV less total investment)		\$ 680	
<b>Per Share Amounts</b>			
NAV per share held by stockholder		\$ 10.84	
Investment per share held by stockholder		\$ 10.67	
Accretion per share held by stockholder (NAV per share less investment per share)		\$ 0.17	1.59%



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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, 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, 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 nine months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. This selected financial data for the nine months ended June 30, 2010 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 in this prospectus supplement.

(Dollar amounts in thousands, except per share data)	Nine months ended	Year ended	Year ended	For the period from
	June 30, 2010	September 30, 2009	September 30, 2008	January 11, 2007 (inception) through September 30, 2007
	Unaudited	Audited	Audited	Audited
<b>Statement of operations data:</b>				
Total investment income	\$ 43,459	\$ 45,119	\$ 39,811	\$ 13,107
Net expenses before base management fee waiver	20,341	22,400	21,676	6,444
Net expenses after base management fee waiver <sup>(1)</sup>	20,341	22,400	21,255	5,803
Net investment income	23,118	22,719	18,556	7,304
Net realized and unrealized (loss) gain	(13,213)	13,083	(59,259)	(24,004)
Net increase (decrease) in net assets resulting from operations	9,905	35,802	(40,703)	(16,699)
<b>Per share data:</b>				
Net asset value (at period end)	10.94	11.85	10.00	12.83
Net investment income <sup>(2)</sup>	0.82	1.08	0.88	0.35
Net realized and unrealized (loss) gain <sup>(2)</sup>	(0.47)	0.62	(2.81)	(1.15)
Net increase (decrease) in net assets resulting from operations <sup>(2)</sup>	0.35	1.70	(1.93)	(0.80)
Distributions declared <sup>(2),(6)</sup>	(0.81)	(0.96)	(0.90)	(0.36)
<b>Balance sheet data (at period end):</b>				
Total assets	637,039	512,381	419,811	555,008
Total investment portfolio	623,178	469,760	372,148	291,017
Borrowings outstanding	236,076 <sup>(5)</sup>	175,475 <sup>(5)</sup>	202,000	10,000
Payable for investments and unfunded investments	40,995	25,821		273,334
Total net asset value	345,266	300,580	210,728	270,393
<b>Other data:</b>				
Total return <sup>(3)</sup>	27.29%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end) <sup>(4)</sup>	42	42	37	38
Yield on debt portfolio (at period end) <sup>(4)</sup>	11.9%	11.4%	11.1%	10.1%

(1)

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The base management fee waiver was in effect from Inception through March 31, 2008. See "Certain Relationships and Transaction" in the accompanying prospectus.

- (2) Net investment income, net realized and change in unrealized losses, net increase (decrease) in net assets resulting from operations, and distributions declared per share data are calculated based on the weighted average shares outstanding for the respective periods.

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- (3) Total return is based on the change in market price per share during the periods and takes 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.
- (6) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under accounting principles generally accepted in the United States of America.

**Selected Quarterly Data (Unaudited)**

(dollar amounts in thousands, except per share data)

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

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

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

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

\* For the period from January 11, 2007 (inception of operations) through March 31, 2007.

\*\* Based on weighted average shares outstanding for the periods presented.

(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 was organized under the Maryland General Corporation Law in January 2007. We are an externally managed, closed-end, non-diversified investment company that has elected to be treated as a business development company under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of U.S. private companies or thinly traded public companies, 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, SBIC LP, was organized as a Delaware limited partnership on May 7, 2010 and has received a license from the SBA to operate as an SBIC under Section 301(c) of the 1958 Act, which became effective as of July 30, 2010. The SBIC's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP invests in SBA eligible businesses that meet the investment criteria used by PennantPark Investment. As an SBIC, SBIC LP will be subject to a variety of regulations and oversight by the SBA concerning, among other things, the size and nature of the companies in which it may invest as well as the structure of those investments.

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. We have also entered into an Administration Agreement with PennantPark Investment Administration. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs. Our board of directors, a majority of whom are independent of us and PennantPark Investment Advisers, supervise our activities.

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt, certain senior secured investments and, to a lesser extent, equity investments. The companies in which we invest are typically highly leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive ratings below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies.

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

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. We have used, and will continue to use, the proceeds of our public offerings of securities and of our credit facility in accordance with our investment objectives. Market conditions may present us with attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. However, market conditions have, and in the future may continue to, adversely affect our portfolio valuations and increase the risk of default among our portfolio companies, which could negatively impact our performance.

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### **Revenues**

We generate revenue in the form of interest income on the debt securities we hold and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of mezzanine debt or senior secured loans, typically have a term of three to ten years and bear interest at a fixed or floating rate. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments or PIK. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, original issue discount and market discount or premium are capitalized, and we accrete or amortize such amounts as interest income. We record prepayment premiums on loans and debt securities as 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. We bear all other costs and expenses of our operations and transactions, including:

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

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

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

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

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

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

federal, state and local taxes;

independent directors' fees and expenses;

brokerage commissions;

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

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

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

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

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**PORTFOLIO AND INVESTMENT ACTIVITY**

As of June 30, 2010, our portfolio totaled \$623.2 million and consisted of \$213.5 million of subordinated debt, \$150.5 million of second lien secured debt, \$219.4 million of senior secured loans and \$39.8 million of preferred and common equity investments. Our core assets totaled \$602.5 million and consisted of investments in thirty-eight different companies with an average investment size of \$15.9 million per company and a weighted average yield of 12.3% on debt investments. Our non-core senior secured loan portfolio totaled \$20.7 million and consisted of four different companies with an average investment size of \$5.2 million, and a weighted average yield of 2.7% on debt investments. Our debt portfolio consisted of 67% fixed-rate (including 21% with a LIBOR floor) and 33% in variable-rate investments. Overall, the portfolio had an unrealized appreciation of \$4.8 million as of June 30, 2010. Our overall portfolio consisted of forty-two companies with an average investment size of \$14.8 million and a weighted average yield on debt investments of 11.9% and was invested 34% in subordinated debt, 24% in second lien secured debt, 35% in senior secured loans and 7% in preferred and common equity investments.

For the three months ended June 30, 2010, we invested \$93.8 million in three new and four existing portfolio companies with a weighted average yield on debt investments of 14.5%. Sales and repayments of long-term investments for the three months ended June 30, 2010 totaled \$59.2 million. For the nine months ended June 30, 2010, we invested \$212.8 million, in twelve new and ten existing portfolio companies with a weighted average yield of 13.7% on debt investments. Sales and repayments of long-term investments totaled \$82.7 million for the same period.

As of September 30, 2009, our portfolio totaled \$469.8 million and consisted of \$157.1 million of subordinated debt, \$134.4 million of second lien secured debt, \$150.6 million of senior secured loans and \$27.7 million of preferred and common equity investments. Our core assets totaled \$427.1 million and consisted of investments in thirty different companies with an average investment size of \$14.2 million per company and a weighted average yield of 12.5% on debt investments. Our non-core senior secured loan portfolio totaled \$42.7 million and consisted of thirteen different companies (including one company also in our core portfolio) with an average investment size of \$3.3 million and a weighted average yield of 3.1%. Our debt portfolio consisted of 53% fixed-rate (including 15% with a LIBOR floor) and 47% variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$27.5 million. Our overall portfolio consisted of forty-two companies with an average investment size of \$11.2 million and a weighted average yield on debt investments of 11.4%, and was invested 33% in subordinated debt, 29% in second lien secured debt, 32% in senior secured loans and 6% in preferred and common equity investments.

For the three months ended June 30, 2009, we invested approximately \$32.6 million in five new and two existing portfolio companies, with an average yield of 14.0% on debt investments. Sales and repayments of long-term investments totaled \$7.3 million for the same period. For the nine months ended June 30, 2009, we invested approximately \$48.0 million in six new and five existing portfolio companies with a weighted average yield of 15.6% on debt investments. Sales and repayments of long-term investments totaled \$12.9 million for the same period.

**CRITICAL ACCOUNTING POLICIES**

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



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**Table of Contents****Valuation of Portfolio Investments**

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

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

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

- (i) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (ii) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (iii) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker.
- (iv) 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
- (v) The board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

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The Financial Accounting Standards Board, or FASB, issued guidance related to *Fair Value Measurements*, or ASC 820, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of ASC 820 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted this statement on October 1, 2008. This adoption did not affect the PennantPark Investment's financial position or its results of operations.

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Substantially, all of our investments and long-term credit facility are classified as *Level 3*.

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.

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

FASB guidance on, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, or ASC 820-10-35-51A. ASC 820-10-35-51A amends ASC 820 to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. It emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique used, the objective of a fair value measurement remains the same that the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The guidance in ASC 820-10-35-51A is effective for periods ending after June 15, 2009. We adopted ASC 820-10-35-51A on June 30, 2009, and it did not have a material impact on our financial statements.

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The FASB issued guidance on, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 115*, or ASC 825-10. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We adopted ASC 825-10 on October 1, 2008 and have made an irrevocable election to apply the fair value option to our credit facility liability. The fair value option was elected for our credit facility to align the measurement attributes of both the assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Upon adoption, our Net Asset Value increased by \$41.8 million, or \$1.99 per share, due to the fair value adjustment related to our credit facility. For the nine months ended June 30, 2010 and 2009, our long-term credit facility had a net change in unrealized (appreciation) depreciation of \$(28.9) million and \$11.4 million, respectively. On June 30, 2010 and September 30, 2009, net unrealized appreciation on our long-term credit facility totaled \$20.7 million and \$49.6 million, respectively, which included the cumulative effect of adoption of ASC 825-10 on our credit facility of \$41.8 million. We use a nationally recognized independent valuation services to measure the fair value of our credit facility in a manner consistent with the valuation process that our board of directors uses to value our investments. After adoption, subsequent changes in the fair value of our credit facility will be recorded in the consolidated statement of operations. We have not elected to apply ASC 825-10 to any other financial assets or liabilities.

FASB Accounting Standards Update No. 2009-05 (ASU 2009-05) as an update to ASC 820, *Measuring Liabilities at Fair Value*. ASU 2009-05 provides additional clarity in circumstances where a quoted price in an active market for the identical liability is not available. ASU 2009-05 clarifies that a liability is required to measure fair value by using one or more of the following techniques: (a) The quoted price of the identical liability when traded as an asset; (b) Quoted prices for similar liabilities or similar liabilities when traded as an asset; or (c) Another valuation technique that is consistent with principles of ASC 820. This update clarifies that when estimating fair value of a liability, a reporting entity is not required to include a separate adjustment to an input relating to the existence of a restriction that prevents the transfer of the liability. The update also states that both a quoted price in an active market for a liability at the measurement date and the quoted price for the same liability when traded as an asset in an active market when no adjustments are made to the quoted price are *Level 1* fair value measurements. We adopted ASU 2009-05 on September 30, 2009, and it did not have a material impact on our financial statements. See Note 5 to the consolidated financial statements.

**Revenue Recognition**

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

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

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

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### **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, this income must be paid out to stockholders in the form of dividends, even though we have not collected any cash with respect to PIK securities.

### **Federal Income Taxes**

We operate so as to qualify to maintain our election to be taxed as a RIC under Subchapter M of the Code and intend to continue to do so. Accordingly, we are not subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income as defined by the Code. If we do not distribute at least 98% of our annual taxable income (excluding net long-term capital gains retained or deemed to be distributed) in the year earned, we generally will be required to pay an excise tax on amounts carried over and distributed to shareholders in the next year equal to 4% of the amount by which 98% of our annual taxable income available for distribution exceeds the distributions from such income for the current year.

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 our consolidated operations for the three and nine months ended June 30, 2010 and 2009.

### **Investment Income**

Investment income for the three and nine months ended June 30, 2010, was \$16.3 million and \$43.4 million, respectively, and was primarily attributable to \$6.6 million and \$17.9 million from subordinated debt investments, \$3.3 million and \$9.8 million from second lien secured debt investments and \$4.7 million and \$11.4 million from senior secured loan investments, respectively. The remaining investment income was primarily attributed to net accretion of discount and amortization of premium and other income. The increase in investment income compared with the same periods in the prior year is due to the growth of our portfolio and the transition of the portfolio from non-core to long-term core investments.

Investment income for the three and nine months ended June 30, 2009, was \$10.8 million and \$33.3 million, respectively, of which \$2.4 million and \$7.4 million was attributable to subordinated debt investments, \$3.3 million and \$10.6 million was attributable to second lien secured debt investments, and \$4.3 million and \$13.6 million was attributable to senior secured loan investments, respectively. The remaining investment income was primarily attributed to interest income from short-term investments and to net accretion of discount and amortization of premium. The change in investment income compared with the same periods in the prior year is due to the growth of our portfolio, the transition of the portfolio from temporary to long-term core investments offset by lower interest rates on our variable rate portfolio of investments.

### **Expenses**

Expenses for the three and nine months ended June 30, 2010, totaled \$7.5 million and \$20.2 million, respectively. For the same respective periods, base management fees totaled \$3.0 million and \$8.3 million,

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performance-based incentive fees totaled \$2.2 million and \$5.8 million, credit facility related expenses totaled \$1.0 million and \$2.6 million, general and administrative expenses totaled \$1.3 million and \$3.5 million. For the nine months ended June 30, 2010, an excise tax of \$0.1 million was incurred. The increase in expenses is primarily the result of increased management and incentive fees that are driven by the growth of our portfolio and net investment income.

Expenses for the three and nine months ended June 30, 2009, totaled \$5.1 million and \$16.6 million, respectively. For the same respective periods, base management fees totaled \$1.9 million and \$5.5 million, performance-based incentive fees totaled \$1.4 million and \$4.2 million, credit facility related expenses totaled \$0.8 million and \$3.8 million, general and administrative expenses totaled \$1.0 million and \$3.1 million.

### **Net Investment Income**

Net investment income totaled \$8.8 million and \$23.1 million, or \$0.28 and \$0.82 per share, for the three and nine months ended June 30, 2010, respectively. For the same respective periods in the prior year, net investment income totaled \$5.7 million and \$16.7 million, or \$0.27 and \$0.79 per share.

### **Net Realized Gain (Loss)**

Sales and repayments of long-term investments for the three and nine months ended June 30, 2010 totaled \$59.2 million and \$82.7 million, respectively, and realized gains (losses) totaled approximately \$0.1 million and \$(16.6) million, respectively, due to sales, primarily, of non-core senior secured loans and restructurings on investments offset by repayments on other investments.

Sales and repayments of long-term investments for the three and nine months ended June 30, 2009 totaled \$7.3 million and \$12.9 million, respectively, and realized losses totaled approximately \$24.7 million and \$30.8 million, respectively, due to sales of non-core and core loans as well as restructurings on investments.

### **Net Unrealized Appreciation (Depreciation) on Investments and (Appreciation) Depreciation on Credit Facility**

For the three and nine months ended June 30, 2010, our investments had a net change in unrealized appreciation (depreciation) of \$(1.5) million and \$32.3 million, respectively. On June 30, 2010 and September 30, 2009, net unrealized appreciation (depreciation) on investments totaled \$4.8 million and \$(27.5) million, respectively. The decrease for the three months ended June 30, 2010 in unrealized appreciation on investments is due to recent softness in the leveraged finance markets, which offset to some extent appreciation for the nine months ended June 30, 2010. The increase for the nine months ended June 30, 2010 in unrealized appreciation on investments is due to the improvements in the overall leveraged finance credit markets.

For the three and nine months ended June 30, 2010, our long-term credit facility had a net change in unrealized appreciation of \$3.2 million and \$28.9 million, respectively. On June 30, 2010 and September 30, 2009, net unrealized depreciation on our long-term credit facility totaled \$20.7 million and \$49.6 million, respectively, which included the cumulative effect of adoption of ASC 825-10 on our credit facility of \$41.8 million. The increase in unrealized appreciation on our credit facility is due to the improvements in the overall leveraged finance credit markets as well as its proximity to maturity.

For the three and nine months ended June 30, 2009, our investments had a net unrealized appreciation of \$27.4 million and \$12.3 million, respectively. On June 30, 2009 and September 30, 2008, net unrealized depreciation on investments and cash equivalents totaled \$59.7 million and \$72.0 million, respectively, primarily due to the downturn in the leveraged finance credit markets.

For the three and nine months ended June 30, 2009, our credit facility experienced a net unrealized appreciation of \$9.2 million and a net unrealized depreciation \$11.4 million, respectively. On June 30, 2009, net unrealized appreciation on our long-term credit facility totaled \$53.2 million, which included the cumulative effect of adoption of ASC 825-10 on our credit facility of \$41.8 million.

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**Net Increase (Decrease) in Net Assets from Operations**

Net increase in net assets resulting from operations totaled \$4.3 million and \$9.9 million, respectively, or \$0.13 and \$0.35 per share, respectively, for the three and nine months ended June 30, 2010. The increase in net assets from operations for the three months ended June 30, 2010 is due to net investment income offset by the appreciation on the credit facility and net depreciation on investments. The increase in net assets from operations for the nine months ended June 30, 2010 is due to increases in the fair values of our investments and net investment income offset by the increase in fair value of our credit facility and realized losses on investments.

Net (decrease) increase in net assets resulting from operations totaled \$(0.8) million and \$9.6 million, respectively, or \$(0.04) and \$0.45 per share, respectively, for the three and nine months ended June 30, 2009, primarily due to net investment income and an increase in investment values offset by realized losses and a decline in market value of our credit facility.

**LIQUIDITY AND CAPITAL RESOURCES**

On June 25, 2007, PennantPark Investment entered into a senior secured revolving credit agreement, or our credit facility, among us, various lenders and SunTrust Bank, as administrative agent for the lenders. SunTrust Robinson Humphrey Capital Markets acted as the joint lead arranger and JPMorgan Chase (Chase Lincoln First Commercial, as successor in interest to Bear Stearns Corporate Lending Inc.) acted as joint lead arranger and syndication agent. As of June 30, 2010, PennantPark Investment had outstanding borrowings of \$256.8 million (including \$5.6 million of temporary draws outstanding) with a fair value of \$236.1 million, with a weighted average interest rate at the time of 1.39% exclusive of the fee on undrawn commitments of 0.20%.

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

The credit facility contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintenance of a minimum shareholders' equity of the greater of (i) 40% of the total assets of PennantPark Investment and its subsidiaries as 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, (c) maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness, in each case of PennantPark Investment, of not less than 2.0:1.0, (excluding any exemptive relief granted by the SEC with respect to the indebtedness of any SBIC subsidiary), (d) maintenance of minimum liquidity standards, (e) limitations on the incurrence of additional indebtedness, (f) limitations on liens, (g) limitations on fundamental corporate changes, (h) limitations on investments (other than PennantPark Investment's portfolio investments and certain other ordinary course investments), (i) limitations on payments and distributions (other than distributions to PennantPark Investment's shareholders as contemplated to maintain RIC status), (j) limitations on transactions with affiliates, (k) limitations on engaging in business not contemplated by PennantPark Investment's investment objectives, and (l) limitations on the creation or existence of agreements that prohibit liens on properties of PennantPark Investment and its subsidiaries. In addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under our credit facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in PennantPark Investment's portfolio.

We have and may continue to raise additional equity or debt capital through a registered offering off a shelf registration, or we may securitize a portion of our investments, among other considerations. 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. We continuously monitor conditions in the credit markets and seek opportunities to enhance our debt structure.

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considering our credit facility matures in June 2012. Furthermore, our credit facility availability depends on various covenants and restrictions as discussed in the preceding paragraph. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our shareholders or for other general corporate purposes.

Our liquidity and capital resources are also generated and available from cash flows from operations, including investment sales and repayments, and income earned while our primary use of funds from operations includes investments in portfolio companies, payments of fees and other operating expenses we incur. On February 2, 2010, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of 12 months. On March 8, 2010, we sold 5.75 million shares of our common stock at a price of \$10.00 per share, below the then current net asset value per share of common stock, resulting in net proceeds of \$54.3 million, inclusive of the underwriters' over-allotment option. Any decision to sell shares below the then current net asset value per share of our common stock in one or more offerings is subject to the determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below net asset value per share has resulted and will continue to result in an immediate dilution to our stockholders' interest in our common stock and a reduction of our net asset value per share.

Additionally, at June 30, 2010, we had approximately \$170 million of select assets, which had a coupon of 9% or lower. We will look to rotate those assets with lower coupons into new higher yielding investments over time.

For the nine months ended June 30, 2010, our operating activities used cash of \$101.6 million and our financing activities provided cash of \$69.6 million, primarily from proceeds of our common stock offerings.

For the nine months ended June 30, 2009, our operating activities used cash of \$9.8 million and our financing activities used net cash proceeds of \$29.9 million, primarily from net borrowings on our credit facility.

**Contractual Obligations**

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings under the multi-currency \$300.0 million, five-year, revolving credit facility maturing in June 2012 is as follows:

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior secured revolving credit facility <sup>(1)</sup>	\$ 256.8		\$ 256.8		

- (1) Amount includes \$5.6 million of temporary draws outstanding. On June 30, 2010, \$43.2 million remained unused under our senior secured revolving credit facility, subject to maintenance of at least 200% of our total assets less liabilities other than indebtedness to our total outstanding indebtedness, maintenance of a blended percentage of the values of our portfolio companies and restrictions on certain payments and issuance of debt.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was renewed in February 2010, PennantPark Investment Advisers serves as our investment adviser in accordance with the terms of that Investment Management Agreement. 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.

Under our Administration Agreement, which was renewed in February 2010, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide managerial assistance to our portfolio companies, PennantPark Investment

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Administration will be paid an additional amount based on the services provided, which amount will not in any case exceed the amount we receive from the portfolio companies for such services. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief compliance officer, chief financial officer and their respective staffs. See Note 3 to the consolidated financial statements.

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

### **Off-Balance Sheet Arrangements**

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

### **Distributions**

In order to qualify as a RIC and to not be subject to corporate-level tax on income, we are required, under Subchapter M of the Code, to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any to our stockholders on an annual basis. Although not required for us to maintain our RIC tax status, we also must distribute at least 98% of our income (both ordinary income and net capital gains) in order to preclude the imposition of an entity level excise tax. For the nine months ended June 30, 2010, we have elected to retain a portion of our calendar year income and record an excise tax of \$0.1 million.

During the three and nine months ended June 30, 2010, we declared distributions of \$0.26 and \$0.77 per share, respectively, for total distributions of \$8.2 million and \$22.9 million, respectively. For the same periods in the prior year, we declared distributions of \$0.24 and \$0.72 per share, respectively, for total distributions of \$5.1 million and \$15.2 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 in the United States, (2) the distribution is declared with respect to a taxable



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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 facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of RIC status. We cannot assure stockholders that they will receive any dividends and distributions at a particular level.

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

We intend to offer the shares through the underwriters named in the table below. J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated, SunTrust Robinson Humphrey, Inc. and Wells Fargo Securities, LLC 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.

Name	Number of Shares
J.P. Morgan Securities Inc.	
Morgan Stanley & Co. Incorporated	
SunTrust Robinson Humphrey, Inc.	
Wells Fargo Securities, LLC	
<b>Total</b>	<b>4,000,000</b>

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

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

**Commissions and Discounts**

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

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase up to an additional 600,000 shares.

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

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We estimate that the total expenses of the offering payable by us, not including underwriting discounts and commissions, will be approximately \$276,000.

### **Over-allotment Option**

We have granted an option to the underwriters to purchase up to 600,000 additional shares at the public offering price less the underwriting discount. J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated, SunTrust Robinson Humphrey, Inc., and Wells Fargo Securities, LLC., 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 60 days after the date of this prospectus without first obtaining the written consent of J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated, SunTrust Robinson Humphrey, Inc., and Wells Fargo Securities, LLC.

Our executive officers and directors, PennantPark Investment Advisers, LLC, 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 J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated, SunTrust Robinson Humphrey, Inc., and Wells Fargo Securities, LLC. Specifically, we and these other individuals 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**

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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

If the underwriters create a short position in the common stock in connection with the offering, (i.e., if they sell more shares than are listed on the cover of this prospectus supplement), the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short

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position by exercising all or part of the overallotment option described above. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the 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 offering 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.

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The principal business address of the underwriters are: J.P. Morgan Securities Inc. is 383 Madison Ave., New York, NY 10179; Morgan Stanley & Co. Incorporated is 1585 Broadway, New York, New York 10036; SunTrust Robinson Humphrey, Inc. is 3333 Peachtree Rd., NE, Atlanta, GA 30326; and Wells Fargo Securities, LLC is 375 Park Avenue, 4<sup>th</sup> Floor, New York, New York 10152.

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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.

#### **Leadership Structure of the Board of Directors and its Role in Risk Oversight**

Our Chief Executive Officer, Arthur H. Penn, is chairman of our board and an interested person under the 1940 Act. The board believes that it is in the best interests of our shareholders for Mr. Penn to lead the board because of his broad experience. See Management in the accompanying prospectus.

As our founder, Mr. Penn has demonstrated a track record of achievement on strategic and operating aspects of our business. Under our bylaws, our board does not have an independent chairman. Many significant corporate governance duties of the board are executed by independent committees, each of which has an independent chairman. Mr. Penn is the only interested director on the board and he answers to the full board. The board believes that its structure, small size and the uniformly high degree of engagement among directors create a highly efficient governance structure that provides ample opportunity for direct communication and interaction between management and the board. While the board regularly evaluates alternative structures, it believes that, as a business development company, it is appropriate for our founder, chief executive officer and chair of our investment committee to perform the functions of chairman of the board, including leading discussions of strategic issues facing PennantPark Investment. The independent directors set the agenda for meetings of the Board. The board believes the current structure provides appropriate guidance and oversight while also enabling efficient input from management.

There are a number of significant risks facing us which are described under the heading Risk Factors in the accompanying prospectus. Our board uses its judgment to create and maintain policies and practices designed to limit or manage the risks we face, including: (1) the establishment of board-approved policies and procedures designed serve the interests of PennantPark Investment, (2) the application of these policies uniformly to directors, management and third-party service providers, (3) the establishment of independent board committees with clearly defined risk oversight functions and (4) review and analysis by the board of reports by management and certain third-party service providers. Accordingly, our board has approved a Code of Ethics (which is jointly applicable to our Investment Adviser) and a Code of Conduct to promote ethical conduct and prohibit certain transactions that could pose significant risks to us. Our board has established a related party transaction review policy, under which it monitors the risks related to certain transactions that present a conflict of interest on a quarterly basis. Our board of directors has also established and approved an investment valuation process to manage risks relating to the valuations of our investments and to ensure that our financial statements appropriately reflect the performance of our portfolio of assets. Additionally, through the board's delegated authority, the Audit Committee of the board has primary oversight over risks relating to our internal controls over financial reporting and audit-related risks, while the Nominating and Corporate Governance Committee of the board has primary oversight over risks relating to corporate governance. The board oversees risks related to our disclosure controls by requiring and reviewing quarterly reports from our Disclosure Committee. The Disclosure Committee, comprised of our Chief Executive Officer, Chief Financial Officer, a representative of our Investment Adviser and a representative of our Administrator, reviews our performance in light of reports from our transfer agent, custodian, Investment Adviser and legal counsel to evaluate our disclosure controls and procedures. Finally, the board oversees the performance of our management team through quarterly reports provided by the Investment Adviser. Under this oversight structure, our management team manages the risks facing us in our day-to-day operations. We caution you, however, that although our board of directors believes it has established an effective system of oversight, no risk management system can eliminate risks or ensure that particular events do not adversely affect our business.

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**Directors Qualifications and Experience**

Our Nominating and Corporate Governance Committee has recommended, and our board and stockholders have approved, the members of our board based on their respective background, experience, qualifications and skills, including but not limited to their sector experience, civic and community involvement, and leadership qualities. See Management in the accompanying prospectus.

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**LEGAL MATTERS**

Certain legal matters regarding the securities offered by this prospectus supplement will be passed upon for PennantPark Investment Corporation by Dechert LLP, Washington, D.C., and Venable LLP, Baltimore, Maryland. Dechert LLP has from time to time represented the underwriters, PennantPark Investment Corporation and the Investment Adviser on unrelated matters. Certain legal matters in connection with the offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP, New York, N.Y. Simpson Thacher & Bartlett LLP and Dechert LLP may rely as to certain matters of Maryland law upon the opinion of Venable LLP.

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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 June 30, 2010, and the consolidated statements of operations for the three and nine month periods ended June 30, 2010 and 2009, consolidated statements of changes in net assets, and cash flows for the nine months ended June 30, 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 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 statement of assets and liabilities of PennantPark Investment Corporation, including the schedule of investments, as of September 30, 2009; and in our report dated November 18, 2009, we expressed an unqualified opinion on that financial statement and schedule.

New York, New York

August 4, 2010

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

	June 30, 2010 (unaudited)	September 30, 2009
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$600,409,815 and \$479,909,805, respectively)	\$ 606,401,552	\$ 453,644,335
Non-controlled, affiliated investments, at fair value (cost \$17,963,471 and \$17,378,081, respectively)	16,776,046	16,115,738
Total of Investments, at fair value (cost \$618,373,286 and \$497,287,886, respectively)	623,177,598	469,760,073
Cash and Cash equivalents	1,303,502	33,247,666
Interest receivable	7,633,183	5,539,056
Receivables for investments sold	3,272,912	2,726,007
Prepaid expenses and other assets	1,651,324	1,108,567
<b>Total assets</b>	<b>637,038,519</b>	<b>512,381,369</b>
<b>Liabilities</b>		
Distributions payable	8,205,281	5,056,505
Payable for investments purchased	18,675,000	19,489,525
Unfunded investments	22,320,388	6,331,385
Credit facility payable, at fair value (cost \$256,800,000 and \$225,100,000, respectively) (See Notes 5 and 10)	236,076,000	175,475,380
Interest payable on credit facility	149,427	72,788
Management fee payable (See Note 3)	3,035,172	2,220,110
Performance-based incentive fee payable (See Note 3)	2,205,311	1,508,164
Accrued other expenses	1,105,890	1,647,244
<b>Total liabilities</b>	<b>291,772,469</b>	<b>211,801,101</b>
<b>Net Assets</b>		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 31,558,772 and 25,368,772 shares issued and outstanding, respectively	31,559	25,369
Paid-in capital in excess of par	384,602,224	327,062,304
Undistributed net investment income	2,242,960	1,890,235
Accumulated net realized loss on investments and cash equivalents	(67,139,005)	(50,494,447)
Net unrealized appreciation (depreciation) on investments	4,804,312	(27,527,813)
Net unrealized depreciation on credit facility (See Note 5)	20,724,000	49,624,620
<b>Total net assets</b>	<b>\$ 345,266,050</b>	<b>\$ 300,580,268</b>
<b>Total liabilities and net assets</b>	<b>\$ 637,038,519</b>	<b>\$ 512,381,369</b>
<b>Net asset value per share</b>	<b>\$ 10.94</b>	<b>\$ 11.85</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Three months ended June 30,</b>		<b>Nine months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Investment income:</b>				
From non-controlled, non-affiliated investments:				
Interest	\$ 15,404,934	\$ 10,333,025	\$ 41,140,098	\$ 32,129,612
Other	594,978	138,335	1,327,063	152,652
From non-controlled, affiliated investments:				
Interest	335,159	298,349	991,388	988,668
<b>Total investment income</b>	<b>16,335,071</b>	<b>10,769,709</b>	<b>43,458,549</b>	<b>33,270,932</b>
<b>Expenses:</b>				
Base management fee (See Note 3)	3,035,172	1,928,082	8,331,957	5,495,505
Performance-based incentive fee (See Note 3)	2,205,310	1,412,925	5,779,297	4,175,224
Interest and other credit facility expenses	962,597	791,587	2,619,555	3,817,133
Administrative services expenses (See Note 3)	709,737	582,177	1,806,860	1,558,672
Other general and administrative expenses	601,011	388,507	1,705,400	1,523,505
<b>Expenses before taxes</b>	<b>7,513,827</b>	<b>5,103,278</b>	<b>20,243,069</b>	<b>16,570,039</b>
Excise tax (See Note 2)			97,890	
<b>Total expenses</b>	<b>7,513,827</b>	<b>5,103,278</b>	<b>20,340,959</b>	<b>16,570,039</b>
<b>Net investment income</b>	<b>8,821,244</b>	<b>5,666,431</b>	<b>23,117,590</b>	<b>16,700,893</b>
<b>Realized and unrealized gain (loss) on investments and credit facility:</b>				
Net realized gain (loss) on non-controlled, non-affiliated investments	100,295	(24,701,776)	(16,644,556)	(30,847,040)
Net change in unrealized (depreciation) appreciation on:				
Non-controlled, non-affiliated investments	(1,732,131)	27,736,328	32,257,205	14,960,676
Non-controlled, affiliated investments	279,017	(318,107)	74,918	(2,638,476)
Credit facility unrealized (appreciation) depreciation (See Note 5)	(3,208,992)	(9,202,647)	(28,900,620)	11,446,442
Net change in unrealized (depreciation) appreciation	(4,662,106)	18,215,574	3,431,503	23,768,642
Net realized and unrealized loss from investments and credit facility	(4,561,811)	(6,486,202)	(13,213,053)	(7,078,398)
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 4,259,433</b>	<b>\$ (819,771)</b>	<b>\$ 9,904,537</b>	<b>\$ 9,622,495</b>
<b>Net increase (decrease) in net assets resulting from operations per common share (See Note 8)</b>	<b>\$ 0.13</b>	<b>\$ (0.04)</b>	<b>\$ 0.35</b>	<b>\$ 0.45</b>
<b>Net investment income per common share</b>	<b>0.28</b>	<b>0.27</b>	<b>0.82</b>	<b>0.79</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Nine months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Increase in net assets from operations:</b>		
Net investment income	\$ 23,117,590	\$ 16,700,893
Net realized loss on investments	(16,644,556)	(30,847,040)
Net change in unrealized appreciation on investments	32,332,123	12,322,200
Net change in unrealized (appreciation) depreciation on credit facility	(28,900,620)	11,446,442
Net increase in net assets resulting from operations	9,904,537	9,622,495
<b>Distributions to Stockholders:</b>		
Distributions from net investment income	(22,862,755)	(15,169,515)
<b>Capital Share Transactions:</b>		
Issuance of shares of common stock, net of offering costs	57,644,000	
<b>Total increase (decrease) in net assets</b>	<b>44,685,782</b>	<b>(5,547,020)</b>
<b>Net Assets:</b>		
Beginning of period	300,580,268	210,728,260
Cumulative effect of adoption of fair value option (See Note 5)		41,796,000
Adjusted beginning of period balance	300,580,268	252,524,260
End of period	\$ 345,266,050	\$ 246,977,240
Undistributed net investment income, at period end	2,242,960	928,718
<b>Capital Share Activity:</b>		
Shares issued in connection with public offerings	6,190,000	

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

	<b>Nine Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 9,904,537	\$ 9,622,495
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	(32,332,123)	(12,322,200)
Net change in unrealized appreciation (depreciation) on credit facility	28,900,620	(11,446,442)
Net realized loss on investments	16,644,556	30,847,040
Net accretion of discount and amortization of premium	(3,155,823)	(1,903,798)
Purchase of investments	(212,794,556)	(47,957,218)
Payments-in-kind	(4,495,644)	(2,528,233)
Proceeds from dispositions of investments	82,716,065	12,873,998
(Increase) Decrease in interest receivable	(2,094,127)	1,275,507
(Increase) in receivables for investments sold	(546,905)	(1,381,011)
(Increase) Decrease in prepaid expenses and other assets	(542,757)	95,536
(Decrease) Increase in payables for investments purchased	(814,525)	4,183,666
Increase in unfunded investments	15,989,003	6,331,385
Increase (Decrease) in interest payable on credit facility	76,639	(653,009)
Increase in management fee payable	815,062	1,842,186
Increase in performance-based incentive fee payable	697,147	1,292,839
(Decrease) in accrued expenses	(541,354)	(11,291)
Net cash (used for) operating activities	(101,574,185)	(9,838,550)
<b>Cash flows from financing activities:</b>		
Issuance of shares of common stock, net of offering costs	57,644,000	
Distributions paid to stockholders	(19,713,979)	(15,169,515)
Borrowings under credit facility (See Note 10)	189,300,000	85,300,000
Repayments under credit facility (See Note 10)	(157,600,000)	(100,000,000)
Net cash provided by (used for) financing activities	69,630,021	(29,869,515)
<b>Net decrease in cash and cash equivalents</b>	<b>(31,944,164)</b>	<b>(39,708,065)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>33,247,666</b>	<b>40,249,201</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,303,502</b>	<b>\$ 541,136</b>
<b>Supplemental disclosure of cash flow information and non-cash financing activity (See Note 5):</b>		
Interest paid	\$ 2,304,517	\$ 4,270,412
Income taxes paid	\$ 97,890	\$
Cumulative effect of adoption of fair value option on credit facility	\$	\$ 41,796,000

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

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index<sup>(4)</sup></b>	<b>Par/ Shares</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 175.6%<sup>(2)</sup></b>							
<b>Subordinated Debt/Corporate Notes 60.2%</b>							
Affinion Group Holdings, Inc.	03/01/2012	Consumer Products	8.39% <sup>(6)</sup>	L+750	\$ 24,541,792	\$ 24,077,712	\$ 22,823,867
Aquilex Holdings, LLC <sup>(5)</sup>	12/15/2016	Diversified / Conglomerate Services	11.13%		15,885,000	15,476,595	15,885,000
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% <sup>(6)</sup>		8,109,468	7,968,680	8,190,563
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% <sup>(6)</sup>		20,617,803	20,237,130	21,236,337
Da-Lite Screen Company, Inc. <sup>(5)</sup>	04/01/2015	Home and Office Furnishings, Housewares and Durable Consumer Products	12.50%		25,000,000	24,354,029	24,968,752
i2 Holdings Ltd. <sup>(10)</sup>	06/06/2014	Aerospace and Defense	14.75% <sup>(6)</sup>		23,124,745	22,801,947	23,166,369
Learning Care Group (US) Inc.	06/30/2013	Education	15.00% <sup>(6)</sup>		3,947,368	3,176,775	3,582,236
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		10,000,000	9,020,894	7,550,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% <sup>(6)</sup>		11,646,610	11,282,917	11,646,610
Trizetto Group, Inc.	10/01/2016	Insurance	13.50% <sup>(6)</sup>		20,501,960	20,327,187	21,117,019
UP Acquisitions Sub Inc.	02/08/2015	Oil and Gas	15.50% <sup>(6)</sup>		21,098,000	20,623,633	21,098,000
Veritext Corp.	12/31/2015	Business Services	14.00% <sup>(6)</sup>		15,000,000	14,625,000	15,000,000
Veritext Corp. <sup>(9)</sup>	12/31/2012	Business Services			12,000,000	11,700,000	11,700,000
<b>Total Subordinated Debt/Corporate Notes</b>						<b>205,672,499</b>	<b>207,964,753</b>
<b>Second Lien Secured Debt 41.2%</b>							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.45%	L+600	13,600,000	13,197,356	12,002,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.49%	L+700	12,000,000	11,766,298	10,770,000
Generics International (U.S.), Inc.	04/30/2015	Healthcare, Education and Childcare	8.03%	L+750	12,000,000	11,956,973	11,388,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% <sup>(6)</sup>	L+700 <sup>(8)</sup>	2,436,357	2,436,357	2,444,884
Mohegan Tribal Gaming Authority <sup>(5)</sup>	11/01/2017	Hotels, Motels, Inns and Gaming	11.50%		5,000,000	4,821,918	4,950,000
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 <sup>(8)</sup>	3,227,428	3,227,428	3,227,428
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% <sup>(6)</sup>	L+850 <sup>(8)</sup>	1,723,738	1,723,738	1,723,738
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,433,330
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2015	Transportation	8.19%	L+775	10,000,000	9,949,586	9,050,000
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2017	Transportation	12.50%		19,000,000	17,001,649	17,955,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.10% <sup>(6)</sup>	L+575	21,500,000	19,113,540	19,618,750



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Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	7.35% <sup>(6)</sup>	L+700	22,500,000	22,489,618	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	7.10% <sup>(6)</sup>	L+675	17,706,723	17,215,645	16,095,412
<b>Total Second Lien Secured Debt</b>						144,900,106	142,158,542

**Preferred Equity/Partnership Interests<sup>(7)</sup> 2.6%**

AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			319	318,896	
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		797	797,288	1,038,808
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services	9.00%		144,375	144,375	147,263
i2 Holdings Ltd. <sup>(10)</sup>		Aerospace and Defense	12.00%		4,137,240	4,137,240	4,363,693
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,453,128
UP Holdings Inc., Class A-1 (UP Acquisitions Sub Inc.)		Oil and Gas	8.00%		91,608	2,499,066	1,359,390
<b>Total Preferred Equity/Partnership Interests</b>						9,894,691	9,048,102

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

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread</b>	<b>Above Index (4)</b>	<b>Par /Shares</b>	<b>Cost</b>	<b>Fair Value(3)</b>
<b>Common Equity/Warrants/Partnership Interests (7) 8.1%</b>								
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment				\$ 1,333	\$ 3,000,000	\$ 3,000,000
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense				1,627	16,271	376,787
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services				5,557	3,200,000	7,285,925
i2 Holdings Ltd. (10)		Aerospace and Defense				457,322	454,030	
Learning Care Group (US) Inc. (warrants)	04/27/2020	Education				1,267	779,920	720,582
Magnum Hunter Resources Corporation		Oil and Gas				1,055,932	2,464,999	4,582,745
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media				4,325	1,306,167	1,255,907
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media				531		154,193
TRAK Acquisition Corp. (warrants)	12/29/2019	Business Services				3,500	29,400	670,917
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport				137,923	2,433,112	4,369,483
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance				2	6,467	1,396,056
UP Holdings Inc. (UP Acquisitions Sub Inc.)		Oil and Gas				91,608	916	
VText Holdings, Inc.		Business Services				35,526	4,050,000	4,050,000
<b>Total Common Equity/Warrants/Partnership Interests</b>							<b>17,741,282</b>	<b>27,862,595</b>
<b>First Lien Secured Debt 63.5%</b>								
1-800 Contacts, Inc.	03/04/2015	Distribution	7.70%		P+295(8)	11,829,625	10,259,614	11,711,327
Birch Communications, Inc.	06/21/2015	Telecommunications	15.00%		L+1,300(8)	16,363,636	15,765,861	16,363,636
Birch Communications, Inc.(9)	09/30/2010	Telecommunications				3,636,364	3,636,364	3,636,364
CEVA Group PLC(5),(10)	10/01/2016	Logistics	11.63%			7,500,000	7,300,183	7,743,750
CEVA Group PLC(5),(10)	04/01/2018	Logistics	11.50%			1,000,000	987,488	1,015,000
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%		L+988(8)	9,437,500	8,934,730	9,366,719
Columbus International, Inc.(5),(10)	11/20/2014	Communication	11.50%			10,000,000	10,000,000	10,650,730
EnviroSolutions, Inc.	07/07/2012	Environmental Services	12.00 % (6),(7)		P+775(8)	14,228,928	13,445,577	10,771,298
EnviroSolutions, Inc.(9)	11/10/2010	Environmental Services				6,666,666	6,666,666	6,666,666
Fairway Group Acquisition Company	10/01/2014	Grocery	12.00%		L+950 &	11,953,013	11,668,305	11,875,336
					P+850(8)			
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.73%		L+225	8,775,000	8,775,000	4,852,575
Hughes Network Systems, L.L.C.	04/15/2014	Telecommunications	3.06%		L+250	5,000,000	5,000,000	4,708,335
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%		L+950(8)	24,937,500	24,447,386	24,937,500
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings,	2.59%		L+225	9,762,835	9,762,835	7,956,711

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		Housewares and Durable Consumer Products					
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,462,378	26,052,632
Mattress Holding Corp.	01/18/2014	Home and Office Furnishings, Housewares and Durable Consumer Products					
			2.60%	L+225	3,844,931	3,844,931	3,159,253
Penton Media, Inc.	08/01/2014	Other Media	5.00% <sup>(6)</sup>	L+400 <sup>(8)</sup>	9,830,510	8,363,445	7,127,120
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+650 <sup>(8)</sup>	83,450	83,450	83,450
Questex Media Group LLC <sup>(9)</sup>	12/16/2012	Other Media			317,358	317,358	317,358
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 <sup>(8)</sup>	29,500,000	28,717,396	28,025,000
U.S. Xpress Enterprises, Inc.	10/12/2014	Cargo Transportation	6.50%	L+450 <sup>(8)</sup>	14,831,269	10,660,443	13,496,454
World Color Press Inc. <sup>(10)</sup>	07/21/2012	Printing and Publishing	9.00%	P+500 <sup>(8)</sup>	3,481,042	3,235,383	3,494,096
Yonkers Racing Corp. <sup>(5)</sup>	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		5,000,000	4,866,444	5,356,250
<b>Total First Lien Secured Debt</b>						222,201,237	219,367,560
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						600,409,815	606,401,552

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<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index (4)</b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
<b>Investments in Non-Controlled, Affiliated Portfolio Companies 4.9%<sup>(1),(2)</sup></b>							
<b>Subordinated Debt/Corporate Notes 1.6%</b>							
Performance Holdings, Inc.	07/02/2014	Leisure, Amusement,  Motion Pictures and Entertainment	14.25% <sup>(6)</sup>		\$ 5,640,077	\$ 5,463,471	\$ 5,513,175
<b>Second Lien Secured Debt 2.4%</b>							
Performance, Inc.	07/02/2013	Leisure, Amusement,  Motion Pictures and Entertainment	5.99%	L+575	8,750,000	8,750,000	8,295,000
<b>Common Equity/Partnership Interest <sup>(7)</sup> 0.9%</b>							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement,  Motion Pictures and Entertainment			37,500	3,750,000	2,967,871
<b>Investments in Non-Controlled, Affiliated Portfolio Companies</b>						17,963,471	16,776,046
<b>Total Investments 180.5%</b>						618,373,286	623,177,598
Cash Equivalents 0.4%					1,303,502	1,303,502	1,303,502
<b>Total Investments and Cash Equivalents 180.9%</b>						\$ 619,676,788	\$ 624,481,100
<b>Liabilities in Excess of Other Assets (80.9)%</b>							(279,215,050)
<b>Net Assets 100.0%</b>							\$ 345,266,050

(1) As used in this Consolidated Schedule of Investments and in accordance with the 1940 Act, non-controlled means we own less than 25% of a portfolio company's voting securities.

(2) As used in this Consolidated Schedule of Investments and in accordance with the 1940 Act, non-affiliated means we own less than 5% of a portfolio company's voting securities and affiliated means that we own 5% or more, but less than 25%, of a portfolio company's voting securities.

(3) Valued based on our accounting policy (see Note 2 to our consolidated financial statements).

(4)

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Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offer Rate (LIBOR or L ) or Prime Rate (Prime or P ).

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

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**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS**

September 30, 2009

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par/ Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 150.9%<sup>(1),(2)</sup></b>							
<b>Subordinated Debt/Corporate Notes 50.6%</b>							
Affinion Group Holdings, Inc.	03/01/2012	Consumer Products	8.27% <sup>(6)</sup>	L+750	\$ 23,572,133	\$ 22,930,475	\$ 21,497,875
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% <sup>(6)</sup>		8,109,468	7,952,769	8,190,563
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% <sup>(6)</sup>		20,311,603	19,875,880	20,463,940
Digicel Limited <sup>(5)</sup>	04/01/2014	Telecommunications	12.00%		1,000,000	995,610	1,115,000
i2 Holdings Ltd.	06/06/2014	Aerospace and Defense	14.75% <sup>(6)</sup>		22,653,857	22,279,800	22,880,395
IDQ Holdings, Inc.	05/20/2012	Auto Sector	13.75%		20,000,000	19,632,400	20,060,000
Learning Care Group, Inc.	12/28/2015	Education	13.50% <sup>(6)</sup>		10,324,976	10,190,682	10,324,976
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		10,000,000	8,921,187	5,525,000
Trizetto Group, Inc.	10/01/2016	Insurance	13.50% <sup>(6)</sup>		20,197,856	20,010,210	20,652,308
UP Acquisitions Sub Inc.	02/08/2015	Oil and Gas	13.50%		21,000,000	20,472,809	21,420,000
<b>Total Subordinated Debt/Corporate Notes</b>						153,261,822	152,130,057
<b>Second Lien Secured Debt 42.1%</b>							
<b>Brand Energy and Infrastructure Services, Inc.</b>							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.36%	L+600	13,600,000	13,153,077	12,416,800
Generics International (U.S.), Inc.	04/30/2015	Healthcare, Education and	7.78%	L+750	12,000,000	11,949,634	11,376,000
<b>Childcare</b>							
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% <sup>(6)</sup>	L+700 <sup>(8)</sup>	2,309,343	2,309,344	2,309,344
Questex Media Group, Inc.	11/04/2014	Other Media	6.91% <sup>(7)</sup>	L+650	10,000,000	10,000,000	
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,387,500
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2015	Transportation	8.19%	L+775	10,000,000	9,941,121	7,100,000
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2017	Transportation	12.50%		19,000,000	16,890,972	14,250,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and					
<b>Childcare</b>							
Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	7.25% <sup>(6)</sup>	L+700	22,500,000	22,488,166	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	7.04% <sup>(6)</sup>	L+675	16,792,105	16,247,489	15,264,023
<b>Total Second Lien Secured Debt</b>						143,571,496	126,382,167
<b>Preferred Equity/Partnership Interests<sup>(7)</sup> 3.6%</b>							
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		797	797,288	949,648
i2 Holdings Ltd.		Aerospace and Defense	12.00%		4,137,240	4,137,240	4,793,729

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TZ Holdings, L.P., Series A (Trizetto Group, Inc.)	Insurance		686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)	Insurance	6.50%	1,312	1,312,006	1,410,604
UP Holdings Inc., Class A-1 (UP Acquisitions Sub Inc.)	Oil and Gas	8.00%	91,608	2,499,067	3,094,252
VSS-AHC Holdings, LLC (Advanstar Inc.)	Other Media		319	318,896	
<b>Total Preferred Equity/Partnership Interests</b>				9,750,317	10,934,053

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<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index<sup>(4)</sup></b>	<b>Par /Shares</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
<b>Common Equity/Warrants/Partnership Interests<sup>(7)</sup> 4.5%</b>							
AHC Mezzanine (Advanstar Inc.)		Other Media			3,000	\$ 3,005,163	\$
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,627	16,271	215,547
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	3,200,000	6,696,281
i2 Holdings Ltd.		Aerospace and Defense			457,322	454,030	1,293,476
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport			106,299	1,779,455	2,391,463
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	6,467	1,337,451
UP Holdings Inc. (UP Acquisitions Sub Inc.)		Oil and Gas			91,608	916	1,656,350
VSS-AHC Holdings, Inc. (Advanstar Inc.) (Warrant)	11/06/2018	Other Media			85		
<b>Total Common Equity/Warrants/Partnership Interests</b>						<b>8,462,302</b>	<b>13,590,568</b>
<b>First Lien Secured Debt 50.1%</b>							
1-800 Contacts, Inc.	03/04/2015	Distribution	7.70%	P+295 <sup>(8)</sup>	13,929,825	11,941,660	13,720,877
Burlington Coat Factory Warehouse Corp.	05/28/2013	Retail Store	2.57%	L+225	2,837,374	2,835,299	2,578,464
Ceva Group PLC <sup>(5)</sup>	10/01/2016	Logistics	11.63%		7,500,000	7,284,525	7,284,525
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 <sup>(8)</sup>	10,000,000	9,421,220	10,050,000
EnviroSolutions, Inc.	07/07/2012	Environmental Services	11.00% <sup>(6)</sup>	P+775 <sup>(8)</sup>	14,175,260	13,391,908	12,715,207
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.49%	L+225	8,842,500	8,842,500	6,225,120
Hughes Network Systems, L.L.C.	04/15/2014	Telecommunications	2.88%	L+250	5,000,000	5,000,000	4,562,500
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.53%	L+225	9,817,568	9,817,568	4,810,608
Levlad, L.L.C.	03/08/2014	Consumer Products	7.75%	L+475	4,434,548	4,434,548	1,064,292
Lyondell Chemical Co.	12/15/2009	Chemicals, Plastics and Rubber	13.00%	L+1,000 <sup>(8)</sup>	12,668,615	12,965,067	13,169,026
Lyondell Chemical Co. <sup>(9)</sup>	12/15/2009	Chemicals, Plastics and Rubber			6,331,385	6,458,897	6,581,474
Mattress Holding Corp.	01/18/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.55%	L+225	3,910,200	3,910,200	3,022,585
Mitchell International, Inc.	03/28/2014	Business Services	2.31%	L+200	1,910,204	1,910,204	1,687,346
National Bedding Co., L.L.C.	02/28/2013	Home and Office Furnishings, Housewares and Durable Consumer Products	2.26%	L+200	6,825,000	6,829,243	6,142,500
Penton Media, Inc.	02/01/2013	Other Media	2.73%	L+225	4,875,000	4,875,000	3,568,500
Philosophy, Inc.	03/16/2014	Consumer Products	2.25%	L+200	1,426,506		