PENNANTPARK INVESTMENT CORP
Form 497
September 25, 2012
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Filed Pursuant to Rule 497
File No. 333-172524

Prospectus Supplement

To the Prospectus dated January 6, 2012

9,000,000 Shares

Common Stock

$10.82 Per Share

We are offering for sale 9,000,000 shares of our common stock. Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT. The last reported closing price for our common stock on September 24, 2012 was $11.10 per share. The net asset value of our common stock on June 30, 2012 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $10.16 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, as amended, or the 1940 Act. Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of senior secured loans, mezzanine debt and equity investments. We are externally managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read them before you invest in our securities 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. You may also obtain such information free of charge or make stockholder inquiries by contacting us in writing at 590 Madison Avenue, New York, NY 10022, by calling us collect at (212) 905-1000 or by visiting our website at *www.pennantpark.com*. The information on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus. The SEC also maintains a website at *www.sec.gov* that contains such information free of charge.

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

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

	Per Share	Total

Public offering price	$ 10.8200	$ 97,380,000
Underwriting discounts and commissions (sales load)	$ 0.3787	$ 3,408,300
Proceeds to PennantPark Investment Corporation (before estimated expenses of $330,000)	$ 10.4413	$ 93,971,700

The underwriters may also purchase up to an additional 1,350,000 shares from us at the public offering price, less the underwriting discounts, within 30 days from the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be $111,987,000, the total underwriting discount and commissions (sales load) paid by us will be $3,919,545, and total proceeds, before expenses, will be $108,067,455.

The underwriters expect to deliver the shares on or about September 28, 2012.

Morgan Stanley Goldman, Sachs & Co. J.P. Morgan SunTrust Robinson Humphrey
Credit Suisse RBC Capital Markets Stifel Nicolaus Weisel
Evercore Partners FBR Janney Montgomery Scott Ladenburg Thalmann & Co. Inc. ING
The date of this prospectus supplement is September 25, 2012.

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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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PROSPECTUS

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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. Some of the statements in this prospectus supplement and accompanying prospectus constitute forward-looking statements, which apply to both us and our consolidated Small Business Investment Company, or SBIC, subsidiary and relate to future events, future performance or future financial condition. The forward-looking statements involve risks and uncertainties on a consolidated basis and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in this prospectus supplement and accompanying prospectus. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus supplement and accompanying prospectus. In this prospectus supplement and the accompanying prospectus except where the context suggests otherwise the terms we, us, our, and Company refer to PennantPark Investment Corporation and its consolidated subsidiaries; PennantPark Investment refers to only PennantPark Investment Corporation; SBIC LP, subsidiaries or our SBIC refers to our consolidated subsidiary, PennantPark SBIC LP and its general partner PennantPark SBIC GP, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; and PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC.

General Business of PennantPark Investment Corporation

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately $10 million to $50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies. In addition, we expect our debt investments to generally range in maturity from three to ten years.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. Turmoil in the credit markets over the last five years has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market debt instruments. These conditions have presented us with and may continue to offer attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. We have used, and expect to continue to use, our credit facility, or the Credit Facility, the Small Business Administration, or SBA, debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

As of June 30, 2012, our portfolio totaled $929.1 million and consisted of $285.8 million of senior secured loans, $150.1 million of second lien secured debt, $401.5 million of subordinated debt and $91.7 million of preferred and common equity investments. Our debt portfolio consisted of 68% fixed-rate and 32% variable-rate investments (including 27% with a London Interbank Offered Rate, or LIBOR, or prime floor). As of June 30, 2012, we had two non-accrual debt investments, representing 2% and 7% of our overall portfolio on a market value and cost basis, respectively. Our overall portfolio consisted of 51 companies with an average investment size of $18.2 million, had a weighted average yield on debt investments of 13.3%, and was invested 31% in senior secured loans, 16% in second lien secured debt, 43% in subordinated debt and 10% in preferred and common equity investments.

As of September 30, 2011, our portfolio totaled $827.5 million and consisted of $296.5 million of senior secured loans, $165.3 million of second lien secured debt, $309.3 million of subordinated debt and $56.4 million of preferred and common equity investments. Our debt portfolio consisted of 61% fixed-rate investments and 39% variable-rate investments (including 31% with a LIBOR or prime floor). Our overall portfolio consisted of 48 companies with an average investment size of $17.2 million, had a weighted average yield on debt investments of 13.3%, and was invested 36% in senior secured loans, 20% in second lien secured debt, 37% in subordinated debt and 7% in preferred and common equity investments.

For the three months ended June 30, 2012, we invested $89.9 million in three new and two existing portfolio companies with a weighted average yield on debt investments of 13.0%. Sales and repayments of long-term investments for the three months ended June 30, 2012 totaled $55.3 million. For the nine months ended June 30, 2012, we invested approximately $243.8 million in nine new and 13 existing portfolio companies with a weighted average yield of 13.7% on debt investments. Sales and repayments of long-term investments totaled $173.8 million for the same period.

For the three months ended June 30, 2011, we invested $145.5 million in three new and four existing portfolio companies with a weighted average yield on debt investments of 13.5%. Sales and repayments of long-term investments for the three months ended June 30, 2011 totaled $119.3 million. For the nine months ended June 30, 2011, we invested approximately $342.0 million in 13 new and seven existing portfolio companies with a weighted average yield of 13.9% on debt investments. Sales and repayments of long-term investments totaled $256.4 million for the same period.

Organization and Structure of PennantPark Investment Corporation

PennantPark Investment Corporation, a Maryland corporation organized on January 11, 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC, under the 1940 Act. In addition, for tax purposes we have elected to be treated, and intend to qualify annually, as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code.

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

Our Investment Adviser and Administrator

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

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access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser s inception in 2007, it has raised approximately $1.4 billion in debt and equity capital and has invested $2.0 billion in almost 200 companies with over 95 different financial sponsors through its managed funds.

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

Market Opportunity

We believe that the limited amount of capital available to middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for PennantPark Investment.

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

- **We believe middle-market companies have faced difficulty raising debt in private markets.** Banks, finance companies, hedge funds and collateralized loan obligation, or CLO, funds have withdrawn capital from the middle-market, resulting in opportunities for alternative funding sources.

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

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

- **We believe there is substantial supply of opportunities resulting from refinancing.** A high volume of financings were completed between the years 2004 and 2007, which will mature in the next few years. This supply of opportunities coupled with a lack of demand offers attractive risk-adjusted returns to investors.

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Competitive Advantages

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

a) Experienced Management Team

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

b) Disciplined Investment Approach with Strong Value Orientation

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

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

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

- strong competitive positions;
- positive cash flow that is steady and stable;
- experienced management teams with strong track records;
- potential for growth and viable exit strategies; and
- capital structures offering appropriate risk-adjusted terms and covenants.

c) Ability to Source and Evaluate Transactions through our Investment Adviser s Research Capability and Established Network

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

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d) Flexible Transaction Structuring

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

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

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

e) Longer Investment Horizon with Attractive Publicly Traded Model

Unlike private equity and venture capital funds, we are not subject to standard periodic capital return requirements. Such requirements typically stipulate that funds raised by a private equity or venture capital fund, together with any capital gains on such invested funds, can only be invested once and must be returned to investors after a pre-agreed time period. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles enables us to generate attractive returns on invested capital and to be a better long-term partner for our portfolio companies.

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available to middle-market companies 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 BDC. See Risk Factors Risks Relating to our Business and Structure We operate in a highly competitive market for investment opportunities in the accompanying prospectus for more information.

Leverage

We maintain a multi-currency $380.0 million senior secured Credit Facility, which is secured by substantially all of our investment portfolio assets (excluding the assets of SBIC LP). As of June 30, 2012 and September 30, 2011, there was $185.1 million (including a temporary draw of $0.9 million) and $240.9 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.01% and 1.27%, exclusive of the fee on undrawn commitments of 0.50% and 0.20%, respectively. The Credit Facility is a four-year revolving facility, with a stated maturity date of February 21, 2016, with a one-year term-out period following its third year and pricing is set at 275 basis points over LIBOR. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. In addition, any future additional debt capital we incur to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility.

As of June 30, 2012, SBIC LP had drawn $150.0 million, with a weighted average interest rate of 3.70%, exclusive of 3.43% of upfront fees (4.04% after upfront fees). SBA debentures offer competitive terms such as being non-recourse to us, a 10-year maturity, semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of SBIC LP and have a superior claim over such assets.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this prospectus supplement and in the accompanying prospectus for more information.

Operating and Regulatory Structure

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

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

As a BDC, 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 for more information. We have elected, and intend to qualify annually, to be treated for federal income tax purposes under the Code as a RIC. See Material U.S. Federal Income Tax Considerations in the accompanying prospectus for more information.

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

Use of Proceeds

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce outstanding obligations under our Credit Facility, to invest in new or existing portfolio companies or for other general corporate purposes. See Use of Proceeds in this prospectus supplement for information regarding our outstanding borrowings as of June 30, 2012, the corresponding interest rate charged on such borrowings as of that date and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.

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Dividends on Common Stock

We intend to continue to distribute quarterly dividends to our common stockholders. Our quarterly dividends, if any, are determined by our board of directors. See Distributions in the accompanying prospectus and Price Range of Common Stock in this prospectus supplement for more information.

Dividend Reinvestment Plan

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

Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on the NASDAQ Global Select Market under the symbol PNNT. Our phone number is (212) 905-1000, and 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 accompanying prospectus. We file periodic reports, proxy statements and other information with the SEC. You may read and copy the materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at *www.sec.gov* that contains material that we file with the SEC on the EDGAR Database.

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FEES AND EXPENSES

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

Stockholder transaction expenses (as a percentage of the offering price)	
Sales load	3.50%(1)
Offering expenses	0.34%(2)
Total stockholder transaction expenses	3.84%
Estimated annual expenses (as a percentage of average net assets attributable to common shares)(3)	
Management fees	3.17%(4)
Incentive fees	2.72%(5)
Interest on borrowed funds	2.24%(6)
Other expenses	1.56%(7)
Total estimated annual expenses	9.69%(8)

(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 $330,000 and is based on the offering of 9,000,000 shares at the offering price of $10.82 per share.

(3) Net assets attributable to common shares equals average net assets at June 30, 2012 plus the anticipated net proceeds from this offering.

(4) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross total assets. See Certain Relationships and Transactions Investment Management Agreement in the accompanying prospectus.

(5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the three months ended June 30, 2012, 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 of June 30, 2012, our unrealized capital gains did not exceed our cumulative realized and unrealized capital losses. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended June 30, 2012. For more detailed information about the incentive fee, please see Certain Relationships and Transactions-Investment Management Agreement in the accompanying prospectus for more information.

(6) As of June 30, 2012, we had $194.9 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and $185.1 million in borrowings outstanding under our $380.0 million Credit Facility. As of June 30, 2012, SBIC LP had $150.0 million outstanding with a weighted average interest rate of 3.70%, exclusive of the 3.43% of upfront fees (4.04% inclusive of the 3.43% upfront fee). We may use the net proceeds of this offering to repay outstanding obligations under our Credit Facility. After completing this offering, we may continue to borrow under our Credit Facility to finance our investment objectives. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will

depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See Risk Factors Risks Relating To Our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage in the accompanying prospectus for more information.

(7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the three months ended June 30, 2012 annualized for a full year. See the Consolidated Statement of Operations in our Consolidated Financial Statements in this prospectus supplement and in the accompanying prospectus for more information.

(8) Total estimated annual expenses as a percentage of average net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total estimated annual expenses percentage would be for a company that is not leveraged. We may

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borrow money to leverage our net assets and increase our total assets. The SEC requires that the total estimated annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness) rather than total assets, which include assets that have been funded with borrowed money. For a presentation and calculation of total estimated annual expenses based on average total assets, see page 38 of the accompanying prospectus.

Example

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a $1,000 hypothetical investment in common shares, assuming (1) a 3.50% sales load (underwriting discounts and commissions) and offering expenses totaling 0.34%, (2) total net annual expenses of 6.97% of average net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	$ 105	$ 234	$ 357	$ 646

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses may be greater or less than those assumed. The table above is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Assuming a 5% annual return, the incentive fee under our Investment Management Agreement would not be earned or payable and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. The example assumes that all dividends and distributions are reinvested at net asset value. Depending upon the market value of our common stock, reinvestment of dividends and distributions under our dividend reinvestment plan may occur at a price per share that differs from, and which could be lower than, net asset value. See Distributions and additional information regarding our dividend reinvestment plan in the accompanying prospectus.

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FORWARD-LOOKING STATEMENTS

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

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- our financial condition and results of operations;
- 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 the 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 our Investment Adviser to locate suitable investments for us and to monitor and administer our investments.

We use words such as anticipates, believes, expects, intends, seeks, plans, estimates and similar expressions to identify forward-lookin statements. You should not place undue reliance on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in the accompanying prospectus entitled Risk Factors and elsewhere in this prospectus supplement.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement should not be regarded as a representation by us that our plans and objectives will be achieved.

We have based the forward-looking statements included in this prospectus supplement 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, 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 in the future that we may file with SEC including annual and quarterly reports on Form 10-K/Q and current reports on Form 8-K.

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You should understand that, under Sections 27A(b)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, do not apply to statements made in connection with any offering of securities pursuant to this prospectus supplement or in periodic reports we file under the Exchange Act.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of 9,000,000 shares of our common stock in this offering will be approximately $93.6 million (or approximately $107.7 million if the underwriters fully exercise their option to purchase additional shares), in each case based on a public offering price of $10.82 per share, after deducting the underwriting discounts and commissions of approximately $3.4 million (or approximately $3.9 million if the underwriters fully exercise their option to purchase additional shares) payable by us and estimated offering expenses of approximately $330,000 payable by us.

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce outstanding obligations under our Credit Facility, to invest in new or existing portfolio companies or for other general corporate or strategic 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, 2012, we had $194.9 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and $185.1 million in borrowings outstanding under our $380.0 million Credit Facility. Borrowings under our Credit Facility bear interest at an annual rate equal to LIBOR plus 275 basis points per annum. At June 30, 2012, we had a weighted average interest rate on our Credit Facility at the time of 3.01%. The Credit Facility is a revolving facility with a stated maturity date of February 21, 2016 and is secured by substantially all of the assets in our investment portfolio, excluding assets of SBIC LP. Amounts repaid under our Credit Facility remain available for future borrowings. See Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and in the accompanying prospectus for more information.

We may invest the net proceeds from selling securities pursuant to this prospectus supplement in new or existing portfolio companies, and such investments may take up to a year from the closing of this 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 this offering to reduce then-outstanding obligations under our Credit Facility, which may dilute our net asset value per share, or to invest such proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to earn yields on such investments, if any, that are lower than the interest income that we anticipate receiving in respect of investments in non-temporary investments. As a result, any distributions we make during this investment period may be lower than the distributions that we would expect to pay when such proceeds are fully invested in non-temporary investments. The management fee payable by us will not be reduced while our assets are invested in any such securities. See Regulation Temporary Investments in the accompanying prospectus for more information.

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CAPITALIZATION

The following table sets forth our cash and capitalization on June 30, 2012 (1) on an actual basis and (2) on an as-adjusted basis to reflect the effects of the sale of 9,000,000 shares of our common stock based on the public offering price of $10.82 per share ($10.44 per share net of the sales load) and $330,000 of offering expenses. 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 related notes thereto, in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and in the accompanying prospectus for more information.

	As of June 30, 2012 (unaudited)	
	Actual	As adjusted for the offering[1]
Cash equivalents	$ 9,316,015	$ 102,957,715
Total assets	992,159,718	1,085,801,418
Borrowings under the Credit Facility (cost $185,100,000)	184,179,000	184,179,000
Borrowings under SBA debentures (cost $150,000,000)	150,000,000	150,000,000
Stockholders Equity		
Common stock, 56,367,339 and 65,367,339 shares, as-adjusted, are issued and outstanding, respectively. Par value is $0.001 per share and 100,000,000 shares are authorized.	56,367	65,367
Paid in capital in excess of par value	649,247,207	742,879,907
Undistributed net investment income	4,339,635	4,339,635
Accumulated net realized loss on investments	(60,156,848)	(60,156,848)
Net unrealized depreciation on investments	(21,745,852)	(21,745,852)
Net unrealized depreciation on Credit Facility	921,000	921,000
Total stockholders equity	572,661,509	666,303,209
Total capitalization	$ 906,840,509	$ 1,000,482,209

(1) Does not include the underwriters option to purchase additional shares.

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PRICE RANGE OF COMMON STOCK

Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since the beginning of fiscal year end September 30, 2008. On September 24, 2012, the last reported closing price of our common stock was $11.10 per share.

Period	NAV(1)	Closing Sales Price High	Closing Sales Price Low	Premium/ (Discount) of High Sales Price to NAV(2)	Premium/ (Discount) of Low Sales Price to NAV(2)	Dividends Declared
Fiscal year ending September 30, 2012						
Fourth quarter (as of September 24, 2012)	$ N/A	$ 11.44	$ 10.36	N/A%	N/A%	$ 0.28(3)
Third quarter	10.16	10.70	9.27	5	(9)	0.28
Second quarter	10.38	11.23	10.31	8	(1)	0.28
First quarter	10.19	11.02	8.57	8	(16)	0.28
Fiscal year ended September 30, 2011						
Fourth quarter	10.13	11.52	8.89	14	(12)	0.27
Third quarter	11.08	12.43	10.97	12	(1)	0.27
Second quarter	11.30	13.05	11.21	15	(1)	0.27
First quarter	11.14	12.75	10.60	14	(5)	0.26
Fiscal year ended September 30, 2010						
Fourth quarter	10.69	10.69	9.17	0	(14)	0.26
Third quarter	10.94	11.84	9.02	8	(18)	0.26
Second quarter	11.07	10.77	8.88	(3)	(20)	0.26
First quarter	11.86	9.15	7.63	(23)	(36)	0.25
Fiscal year ended September 30, 2009						
Fourth quarter	11.85	9.06	6.28	(24)	(47)	0.24
Third quarter	11.72	7.65	3.85	(35)	(67)	0.24
Second quarter	12.00	4.05	2.64	(66)	(78)	0.24
First quarter	10.24	7.81	2.35	(24)	(77)	0.24
Fiscal year ended September 30, 2008						
Fourth quarter	10.00	8.50	5.92	(15)	(41)	0.24
Third quarter	10.77	8.60	7.05	(20)	(35)	0.22
Second quarter	10.26	11.31	8.38	10	(18)	0.22
First quarter	12.07	14.49	9.08	20	(25)	0.22

(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 Determination of Net Asset Value in the accompanying prospectus for more information.

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

(3) Payable on October 1, 2012 to shareholders of record as of September 20, 2012. Shares purchased in this offering will not be entitled to the dividend to be paid on October 1, 2012.

Shares of BDCs may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares traded on the NASDAQ Global Select Market at $10.35 and $8.92 as of June 30, 2012 and September 30, 2011, respectively. Our NAV was $10.16 and $10.13 per share, as of June 30, 2012 and September 30, 2011, respectively. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

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SELECTED FINANCIAL DATA

We have derived the financial information below from our audited and unaudited financial data and, in the opinion of management, such information reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such periods. The Consolidated Statement of Operations data, Per share data and Consolidated Statement of Assets and Liabilities data for the fiscal years ended September 30, 2011, 2010, 2009 and 2008, and for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our Consolidated Financial Statements which have been audited by KPMG LLP, our independent registered public accounting firm. These selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations in the accompanying prospectus. Interim results as of and for the nine months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. The unaudited selected financial data for the nine months ended June 30, 2012 and 2011, should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement.

(Dollar amounts in thousands, except per share data)	Nine Months Ended June 30, 2012 (unaudited)	Nine Months Ended June 30, 2011 (unaudited)	Years ended September 30, 2011	Years ended September 30, 2010	Years ended September 30, 2009	Years ended September 30, 2008	For the period from January 11, 2007 (inception) through September 30, 2007
Consolidated Statement of Operations data:							
Total investment income	$ 82,586	$ 65,599	$ 91,738	$ 60,140	$ 45,119	$ 39,811	$ 13,107
Net expenses before base management fee waiver	42,259	28,049	39,093	28,065	22,400	21,676	6,444
Net expenses after base management fee waiver[1]	42,259	28,049	39,093	28,065	22,400	21,255	5,803
Net investment income	40,327	37,550	52,645	32,075	22,719	18,556	7,304
Net realized and unrealized (loss) gain	5,336	3,878	(42,382)	(15,539)	13,083	(59,259)	(24,004)
Net increase/(decrease) in net assets resulting from operations	45,663	41,428	10,263	16,535	35,802	(40,703)	(16,699)
Per share data:							
Net asset value (at period end)	10.16	11.08	10.13	10.69	11.85	10.00	12.83
Net investment income[2]	0.78	0.92	1.25	1.09	1.08	0.88	0.35
Net realized and unrealized (loss) gain[2]	0.10	0.09	(1.01)	(0.53)	0.62	(2.81)	(1.15)
Net increase/(decrease) in net assets resulting from operations[2]	0.88	1.01	0.24	0.56	1.70	(1.93)	(0.80)
Distributions declared[2],[6]	(0.86)	(0.83)	(1.10)	(1.09)	(0.96)	(0.90)	(0.36)
Consolidated Statement of Assets and Liabilities data (at period end):							
Total assets	992,160	817,593	928,738	711,494	512,381	419,811	555,008
Total investment portfolio	929,107	778,944	827,549	664,724	469,760	372,148	291,017
Borrowings outstanding	334,179[5]	230,650[5]	388,792[5]	233,641[5]	175,475[5]	202,000	10,000
Payable for investments purchased and unfunded investments	56,935	61,314	55,705	74,988	25,821		273,334
Total net asset value	572,662	504,939	462,657	386,575	300,580	210,728	270,393
Other data:							
Total return[3]	25.70%	13.00%	(7.37)%	44.79%	30.39	(38.58)	(8.29)%
Number of portfolio companies (at period end)[4]	51	47	48	43	42	37	38
Yield on debt portfolio (at period end)[4]	13.3%	13.1%	13.3%	12.7%	11.4%	11.1%	10.1%

(1) The base management fee waiver was in effect from inception through March 31, 2008.

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

(3) Based on the change in market price per share during the periods and 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 in the case of our Credit Facility.

(6) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under U.S. generally accepted accounting principles.

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Selected Quarterly Data (Unaudited)

(dollar amounts in thousands, except per share data)

	2012		
	Q3	Q2	Q1
Total investment income	$ 29,385	$ 26,362	$ 26,839
Net investment income	$ 15,571	$ 9,759	$ 14,997
Net realized and unrealized (loss) gain	$ (12,151)	$ 16,638	$ 849
Net increase in net assets resulting from operations	$ 3,420	$ 26,397	$ 15,846
Net increase in net assets resulting from operations per common share	$ 0.06	$ 0.50	$ 0.34
Net asset value per share at the end of the quarter	$ 10.16	$ 10.38	$ 10.19
Market value per share at the end of the quarter	$ 10.35	$ 10.40	$ 10.09

	2011			
	Q4	Q3	Q2	Q1
Total investment income	$ 26,139	$ 22,908	$ 22,712	$ 19,979
Net investment income	$ 15,095	$ 13,220	$ 13,159	$ 11,171
Net realized and unrealized (loss) gain	$ (46,260)	$ (10,901)	$ 428	$ 14,351
Net (decrease) increase in net assets resulting from operations	$ (31,165)	$ 2,319	$ 13,587	$ 25,522
Net increase in net assets resulting from operations per common share	$ (0.68)	$ 0.05	$ 0.33	$ 0.71
Net asset value per share at the end of the quarter	$ 10.13	$ 11.08	$ 11.30	$ 11.14
Market value per share at the end of the quarter	$ 8.92	$ 11.21	$ 11.92	$ 12.25

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

	2009			
	Q4	Q3	Q2	Q1
Total investment income	$ 11,847	$ 10,770	$ 10,425	$ 12,077
Net investment income	$ 6,018	$ 5,666	$ 5,267	$ 5,768
Net realized and unrealized gain (loss)	$ 20,162	$ (6,486)	$ 36,932	$ (37,525)
Net increase (decrease) in net assets resulting from operations	$ 26,180	$ (820)	$ 42,199	$ (31,757)
Net increase in net assets resulting from operations 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

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

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

* From January 11, 2007 (inception of operations) through March 31, 2007.

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

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

Overview

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately $10 to $50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies. In addition, we expect our debt investments to generally range in maturity from three to ten years.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. Turmoil in the credit markets has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market debt instruments. These conditions have presented us with and may continue to offer attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. We have used, and expect to continue to use, our Credit Facility, the SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Investment Corporation

PennantPark Investment Corporation was organized under the Maryland General Corporation Law in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to hold 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. In addition, for tax purposes we intend to continue to be treated as a RIC and qualify annually under the Code.

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

Our investment activities are managed by the Investment Adviser. Under the Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. PennantPark Investment, through the Investment Adviser, provides similar services to SBIC LP under its investment management agreement. The SBIC LP investment management agreement does not affect the management and incentive fees on a consolidated basis. We have also entered into the Administration Agreement with the Administrator. Under

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our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement with us. Our board of directors, a majority of whom are independent of us, and the Investment Adviser, supervise our activities.

Revenues

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

Expenses

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complimentary businesses;
- expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- federal, state and local taxes;

independent directors fees and expenses;

brokerage commissions;

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

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

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- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act, the 1958 Act and applicable federal and state securities laws; and
- all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs.

During periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

PORTFOLIO AND INVESTMENT ACTIVITY

As of June 30, 2012, our portfolio totaled $929.1 million and consisted of $285.8 million of senior secured loans, $150.1 million of second lien secured debt, $401.5 million of subordinated debt and $91.7 million of preferred and common equity investments. Our debt portfolio consisted of 68% fixed-rate and 32% variable-rate investments (including 27% with a LIBOR or prime floor). As of June 30, 2012, we had two non-accrual debt investments, representing 2% and 7% of our overall portfolio on a market value and cost basis, respectively. Our overall portfolio consisted of 51 companies with an average investment size of $18.2 million, had a weighted average yield on debt investments of 13.3%, and was invested 31% in senior secured loans, 16% in second lien secured debt, 43% in subordinated debt and 10% in preferred and common equity investments.

As of September 30, 2011, our portfolio totaled $827.5 million and consisted of $296.5 million of senior secured loans, $165.3 million of second lien secured debt, $309.3 million of subordinated debt and $56.4 million of preferred and common equity investments. Our debt portfolio consisted of 61% fixed-rate investments and 39% variable-rate investments (including 31% with a LIBOR or prime floor). Our overall portfolio consisted of 48 companies with an average investment size of $17.2 million, had a weighted average yield on debt investments of 13.3%, and was invested 36% in senior secured loans, 20% in second lien secured debt, 37% in subordinated debt and 7% in preferred and common equity investments.

For the three months ended June 30, 2012, we invested $89.9 million in three new and two existing portfolio companies with a weighted average yield on debt investments of 13.0%. Sales and repayments of long-term investments for the three months ended June 30, 2012 totaled $55.3 million. For the nine months ended June 30, 2012, we invested approximately $243.8 million in nine new and 13 existing portfolio companies with a weighted average yield of 13.7% on debt investments. Sales and repayments of long-term investments totaled $173.8 million for the same period.

For the three months ended June 30, 2011, we invested $145.5 million in three new and four existing portfolio companies with a weighted average yield on debt investments of 13.5%. Sales and repayments of long-term investments for the three months ended June 30, 2011 totaled $119.3 million. For the nine months ended June 30, 2011, we invested approximately $342.0 million in 13 new and seven existing portfolio companies with a weighted average yield of 13.9% on debt investments. Sales and repayments of long-term investments totaled $256.4 million for the same period.

CRITICAL ACCOUNTING POLICIES

The discussion of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP.

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The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from these estimates. We have eliminated all intercompany balances and transactions. References to the Accounting Standards Codification, or ASC, serve as a single source of literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

Valuation of Portfolio Investments

Our investments generally consist of illiquid securities including debt and equity investments. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers or dealers, if available, or otherwise 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. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

We expect that there may not be readily available market values for many of our investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy described in this prospectus supplement and a consistently applied valuation process. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may differ from our valuation and the differences could be material.

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

(1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;

(3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of an investment. The independent valuation firms review management s preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

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

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

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

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

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

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

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

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by a disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence was available. Corroborating evidence that would result in classifying these non-binding brokers/dealer bids as a Level 2 asset includes observable market-based transactions for the same or similar assets or other relevant observable market based inputs that may be used in pricing an asset.

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Within our fair value hierarchy table, our investments are generally categorized as first lien, second lien, subordinated debt and preferred and common equity investments. 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.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications

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impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the nine months ended June 30, 2012, our ability to observe valuation inputs has resulted in no reclassification of assets from Level 3 to 2. There were no investments transferred between Levels 1 and 2 for the same period.

In addition to using the above inputs in cash equivalents, investments and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

In accordance with Accounting Standards Update 2011-04, our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids include a disclaimer, have no corroborating evidence and may be the result of consensus pricing. We do not adjust the bids.

The remainder of our portfolio, including our long-term Credit Facility, is classified as Level 3 and was valued using a market comparable or an enterprise market value technique. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company s ability to make payments, its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the pricing indicated by the external event is used to corroborate the valuation. When using earnings multiples to value a portfolio company, the multiple used requires the use of judgment and estimates in determining how a market participant would price such an asset. Generally, the sensitivity of unobservable inputs or combination of inputs such as industry comparable companies, market outlook, consistency, discount rates and reliability of earnings and prospects for growth, or lack thereof, affects the multiple used in pricing an investment. As a result, any change in any one of those factors may have a significant impact on the valuation of an investment.

The carrying value of our selected financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value and made an irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for the Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company s choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility are recorded in the Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three and nine months ended June 30, 2012 and 2011, our Credit Facility had a net change in unrealized depreciation (appreciation) of $0.2 million and $(1.2) million and $0.6 million and $11.9 million, respectively. As of June 30, 2012 and September 30, 2011, net unrealized appreciation on our Credit Facility totaled $0.9 million and $2.1 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments.

Revenue Recognition

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

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

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

Payment-in-Kind Interest

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

Federal Income Taxes

We operate so as to qualify to maintain our election to be taxed as a RIC under Subchapter M of the Code and intend to continue to do so. To maintain RIC tax benefits, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements (as described below). We also must annually distribute dividends of at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we have retained and may continue to retain such net capital gains or ordinary income to provide us with additional liquidity.

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 Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the three and nine months ended June 30, 2012 and 2011.

Investment Income

Investment income for the three and nine months ended June 30, 2012 was $29.4 million and $82.6 million, respectively, and was attributable to $9.2 million and $30.0 million from senior secured loans, $4.8 million and

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$13.3 million from second lien secured debt investments and $15.4 million and $39.3 million from subordinated debt investments, respectively. This compares to investment income for the three and nine months ended June 30, 2011, which was $22.9 million and $65.6 million, respectively, and was primarily attributable to $7.7 million and $22.8 million from senior secured loans, $3.5 million and $9.5 million from second lien secured debt investments and $8.5 million and $24.8 million from subordinated debt investments, respectively. The increase in investment income compared with the same period in the prior year is due to the growth of our portfolio, which is the result of deploying both equity from our follow-on offering and debt capital.

Expenses

Expenses for the three and nine months ended June 30, 2012, totaled $13.8 million and $42.3 million, respectively. Base management fee for the same respective periods totaled $4.5 million and $12.7 million, performance-based incentive fees totaled $3.9 million and $10.0 million, Credit Facility and SBA debentures expenses (excluding the $5.4 million upfront fees associated with amending and extending our Credit Facility) totaled $3.2 million and $8.3 million, general and administrative expenses totaled $1.8 million and $5.3 million and excise taxes totaled $0.4 million and $0.6 million. This compares to expenses for the three and nine months ended June 30, 2011, which totaled $9.7 million and $28.1 million, respectively. Base management fee for the same respective periods totaled $3.8 million and $10.9 million, performance-based incentive fees totaled $3.3 million and $9.4 million, Credit Facility and SBA debentures expense totaled $1.3 million and $3.6 million, and general and administrative expenses totaled $1.3 million and $4.0 million, respectively, and excise tax totaled $0.2 million. The increase in expenses compared with the same period in the prior year is due to the growth of the portfolio and net investment income as well as the costs associated with amending and extended our Credit Facility. We expect the interest expense associated with our amended Credit Facility to be higher going forward resulting from an increase in the spread on the Credit Facility.

Net Investment Income

Net investment income totaled $15.6 million and $40.3 million, or $0.28 and $0.78 per share, for the three and nine months ended June 30, 2012, respectively. For the same respective periods in the prior year, net investment income totaled $13.2 million and $37.5 million, or $0.29 and $0.92 per share. The decrease in per share net investment income over the periods was primarily the result of upfront expenses associated with amending our Credit Facility.

Net Realized Gains or Losses

Sales and repayments of long-term investments for the three and nine months ended June 30, 2012 totaled $55.3 million and $173.8 million and realized gains (losses) totaled $1.4 million and $(10.5) million, respectively, primarily due to exiting and refinancing debt investments by our portfolio companies. Sales and repayments of long-term investments for the three and nine months ended June 30, 2011 totaled $119.3 million and $256.4 million and realized gains totaled $6.2 million and $8.7 million, respectively, due to sales of lower yielding investments and refinancing of debt investments by our portfolio companies.

Unrealized Appreciation or Depreciation on Investments and Credit Facility

For the three and nine months ended June 30, 2012, we reported unrealized (depreciation) appreciation on investments of $(13.8) million and $17.0 million, respectively. For the three and nine months ended June 30, 2011, we reported unrealized (depreciation) appreciation of $(16.5) million and $7.1 million, respectively. The change in unrealized appreciation for current periods compared to the prior periods is the result of changes in the leveraged credit markets. On June 30, 2012 and September 30, 2011, our net unrealized depreciation on investments totaled $21.7 million and $38.8 million, respectively.

For the three and nine months ended June 30, 2012, our long-term Credit Facility payable increased (decreased) in value due to unrealized appreciation (depreciation) of $0.2 million and $(1.2) million, respectively. For the three and nine months ended June 30, 2011, our long-term Credit Facility balance increased in value due to unrealized appreciation of $0.6 million and $11.9 million, respectively. The change in unrealized appreciation for current periods compared to the prior periods was the result of our prior Credit Facility approaching maturity. On June 30, 2012 and September 30, 2011, net unrealized depreciation on our long-term Credit Facility totaled $0.9 million and $2.1 million, respectively.

Net Increase in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled $3.4 million and $45.7 million, or $0.06 per share and $0.88 per share, respectively, for the three and nine months ended June 30, 2012. This compares to a net increase in net assets resulting from operations which totaled $2.3 million and $41.4 million, respectively, or $0.05 per share and $1.01 per share, respectively, for the three and nine months ended June 30, 2011. This increase in net assets from operations was due to both unrealized appreciation on investments and net investment income, which was partially offset by upfront fees on our Credit Facility.

LIQUIDITY AND CAPITAL RESOURCES

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

On February 21, 2012, we amended and restated our multi-currency Credit Facility, which increased the size of the Credit Facility from $315.0 million to $380.0 million, with certain lenders and SunTrust Bank, acting as administrative agent and JPMorgan Chase Bank, N.A., as syndication agent for the lenders. As of June 30, 2012 and September 30, 2011, there was $185.1 million (including a temporary draw of $0.9 million) and $240.9 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.01% and 1.27%, exclusive of the fee on undrawn commitments of 0.50% and 0.20%, respectively. The Credit Facility is a four-year revolving facility with a stated maturity date of February 21, 2016, and a one-year term-out period following its third year. Borrowings under the Credit Facility bear interest at 275 basis points over LIBOR. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC.

The Credit Facility contains customary affirmative and restrictive covenants, including maintenance of a minimum shareholders equity of the sum of (a) $220.0 million plus (b) 25% of the net proceeds from the sale of equity interests in us and our subsidiaries after the closing date of the Credit Facility and maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.0:1.0 (before any exemptive relief granted by the SEC with respect to the indebtedness of our SBIC subsidiary). In addition to the asset coverage ratio described in the preceding sentence, borrowings under our Credit Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company s portfolio. For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on February 22, 2012 and the Credit Facility agreement filed as an exhibit to our Form 10-Q filed on May 2, 2012. As of June 30, 2012, we were in compliance with the terms of our Credit Facility.

We may raise additional equity or debt capital through both registered offerings off a shelf registration and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA, among other sources. 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. Furthermore, our Credit Facility availability depends on various covenants and restrictions. The primary

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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.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. As of June 30, 2012, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

For the nine months ended June 30, 2012 we sold 10.4 million shares of common stock at a price of $10.55 per share, resulting in net proceeds of $105.2 million. This compares to selling 9.2 million shares of our common stock at a price of $12.40 per share resulting in net proceeds of $108.3 million for the nine months ended June 30, 2011. In February 2012, we received approval from our shareholders to issue shares below the then current net asset value per share for a 12-month period. Any decision to sell shares below the then current net asset value per share of our common stock is subject to shareholder approval and a 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 results in immediate dilution to our stockholders interests in our common stock and a reduction in our net asset value per share.

SBIC LP has borrowed funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including but not limited to an examination by the SBA. We have committed and funded SBIC LP with $75.0 million of equity capital, and had SBA debentures outstanding of $150.0 million. SBA debentures are non-recourse to us, have a 10-year maturity and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of $150.0 million, which is up to twice its potential regulatory capital. SBIC LP has accessed the maximum borrowing permitted by the SBA with its $75.0 million in regulatory capital.

As of June 30, 2012, $150.0 million in debt commitments were fully drawn with a weighted average interest rate of 3.70% exclusive of the 3.43% in upfront fees (4.04% after upfront fees). The SBA debentures upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance at a 2.43% discount to face. Both fees will be amortized over the lives of the loans. Our fixed rate SBA debentures as of June 30, 2012 and September 30, 2011 were as follows:

Issuance Dates	Maturity	Fixed All-in Coupon Rate(1)	Principal Balance
September 22, 2010	September 1, 2020	3.50%	$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000
Weighted average rate / Total		3.70%	$ 150,000,000

(1) Excludes 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, SBIC LP is subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and is subject to periodic audits and examinations of its financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of June 30, 2012, SBIC LP was in compliance with all SBA regulatory requirements.

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Our net asset value may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our Credit Facility and SBA debentures depend on many factors, some of which are beyond our control. Material net asset devaluation could have a material adverse effect on our operations and could require us to reduce our borrowings under our Credit Facility and SBA debentures in order to comply with certain covenants, including the ratio of total assets to total indebtedness.

Our operating activities used cash of $74.3 million for the nine months ended June 30, 2012, primarily due to investing and offset by sales and repayments on our investments. Our financing activities provided cash of $12.0 million for the same period, primarily from proceeds from our common stock offering offset, in part, by net repayments under our Credit Facility.

Our operating activities used cash of $35.8 million for the nine months ended June 30, 2011. Our financing activities provided cash of $62.8 million for the same period, primarily from net repayments under our Credit Facility, SBA debentures issued and our follow-on common stock offering.

Contractual Obligations

A summary of our significant contractual payment obligations as of June 30, 2012 including, borrowings under our multi-currency Credit Facility and other contractual obligations, are as follows:

		Payments due by period (in millions)			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility[1]	$ 185.1	$	$	$ 185.1	$
SBA debentures	150.0				150.0
Subtotal debt outstanding[2]	335.1			185.1	150.0
Unfunded investments[3]	26.9	2.0	24.4		0.5
Total contractual obligations	$ 362.0	$ 2.0	$ 24.4	$ 185.1	$ 150.5

(1) As of June 30, 2012, we had $194.9 million of unused borrowing capacity under our Credit Facility, subject to various restrictions and covenants.
(2) The weighted average interest rate on the total debt outstanding as of June 30, 2012 was 3.32% exclusive of the fee on the undrawn commitment of 0.50% on the Credit Facility and 3.43% of upfront fees on SBIC LP s SBA debentures.
(3) Unfunded debt investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was renewed in February 2012, PennantPark Investment Advisers serves as our Investment Adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, provides similar services to SBIC LP under its investment management agreement with us. The SBIC LP investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was renewed in February 2012, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement, which is intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, we or PennantPark Investment Administration will be paid an additional amount based on the services provided, which amount will not in any case exceed the amount we receive from the portfolio companies for such services. Payment under our Administration Agreement is based upon our allocable portion of the Administrator s overhead in performing its obligations under our Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief compliance officer, chief financial officer and their respective staffs.

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.

Dividends and Distributions

During the three and nine months ended June 30, 2012, we declared dividends of $0.28 and $0.84 per share, respectively, for total dividends of $15.8 million and $44.3 million, respectively. For the same periods in the prior year, we declared dividends of $0.27 and $0.80 per share, respectively, for total dividends of $12.3 million and $34.0 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes 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 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 make quarterly dividends to our stockholders. Our quarterly dividends, if any, are determined by our board of directors.

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 annually dividends of at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may retain such net capital gains or ordinary income to provide us with additional liquidity. For the nine months ended June 30, 2012 and 2011, we elected to retain a portion of our calendar year income and incurred an excise tax of approximately $0.6 million and $0.2 million, respectively.

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.

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 BDC under the 1940 Act and/or due to provisions in future credit facilities. If we do not

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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.

We may distribute our common stock as a dividend of our taxable income and a shareholder could receive a portion of the dividends declared and distributed by us in shares of our common stock with the remaining amount in cash. A shareholder will be considered to have recognized dividend income equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. We have not elected to distribute stock as a dividend but reserve the right to do so.

Updates to Biographical Information of Independent Directors

In May 2012, Mr. Marshall Brozost became a partner at Schulte Roth & Zabel LLP, where he practices in the real estate and private equity groups.

Quantitative And Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of June 30, 2012, our portfolio consisted of 68% fixed- rate and 32% variable-rate investments (including 27% with a LIBOR, or prime floor). The variable-rate loans are usually based on a floating LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor.

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

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in benefits of lower interest rates with respect to our portfolio of investments with fixed interest rates. During the periods covered by this prospectus supplement, we did not engage in interest rate hedging activities.

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UNDERWRITING

We intend to offer the shares through the underwriters named in the table below. Morgan Stanley & Co. LLC, Goldman, Sachs & Co., J.P. Morgan Securities LLC and SunTrust Robinson Humphrey, Inc. are acting as joint bookrunners and representatives of the several underwriters. Subject to the terms and conditions described in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase from us, the number of shares set forth opposite the underwriter s name.

Underwriter Names	Number of Shares
Morgan Stanley & Co. LLC	2,700,000
Goldman, Sachs & Co.	1,800,000
J.P. Morgan Securities LLC	1,800,000
SunTrust Robinson Humphrey, Inc.	450,000
Credit Suisse Securities (USA) LLC	450,000
RBC Capital Markets, LLC	450,000
Stifel, Nicolaus & Company, Incorporated	450,000
Evercore Group L.L.C.	180,000
FBR Capital Markets & Co.	180,000
Janney Montgomery Scott LLC	180,000
Ladenburg Thalmann & Co. Inc.	180,000
ING Financial Markets LLC	180,000
Total	9,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and our independent registered public accounting firm. The underwriters are committed to purchase all shares included in this offering, other than those shares covered by the option to purchase additional shares 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 several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

Commissions and Discounts

The underwriters have advised us that they propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of $0.24 per share. After the public offering, the public offering price and concession 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 option to purchase up to an additional 1,350,000 shares.

	Per Share	Without Option	With Option
Public offering price	$ 10.8200	$ 97,380,000	$ 111,987,000
Underwriting discount	$ 0.3787	$ 3,408,300	$ 3,919,545
Proceeds to PennantPark Investment Corporation (before offering expenses of $330,000)	$ 10.4413	$ 93,971,700	$ 108,067,455

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Option to Purchase Additional Shares

We have granted an option to the underwriters to purchase up to 1,350,000 additional shares at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus supplement. If the underwriters exercise this option, they will be obligated, subject to conditions contained in the underwriting agreement, to purchase the additional shares approximately proportionate to that underwriter s initial purchase commitment.

No Sales of Similar Securities

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

Our executive officers and directors, PennantPark Investment Advisers, LLC, and Pennant Park Investment Administration, LLC have agreed, with exceptions, not to sell or transfer any common stock for 90 days after the date of this prospectus supplement without first obtaining the written consent of Morgan Stanley & Co. LLC. Specifically, we and these other individuals and entities have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

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

Quotation on the NASDAQ Global Select Market

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

Price Stabilization and Short Positions

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

If the underwriters create a short position in the common stock in connection with the offering, (i.e., if they sell more shares than are listed on the cover of this prospectus supplement), the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the option to purchase additional shares 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 option to purchase additional shares. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

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The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

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 respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. 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 received or will receive customary fees and expenses. 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.

In the ordinary course of their various business activities, 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. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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 and may serve as lenders under any future credit facility. Some of the underwriters and their affiliates were underwriters in connection with our initial public offerings 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.

The principal business addresses of the underwriters are: Morgan Stanley & Co. LLC located at 180 Varick Street, 2nd Floor, New York, NY 10014; Goldman, Sachs & Co. located at 200 West Street, New York, NY 10282; J.P. Morgan Securities LLC located at 1155 Long Island Avenue, Edgewood, NY 11717; and SunTrust Robinson Humphrey, Inc. located at 3333 Peachtree Road, NE, Atlanta, GA 30326.

European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of warrants and shares of common stock described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the shares of common stock that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of warrants may be made to the public in that relevant member state at any time:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For purposes of this provision, the expression an offer of shares to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase the shares, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each relevant member state and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

This EEA selling restriction is in addition to any other selling restrictions set out in this Prospectus.

United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). The shares of common stock are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares of common stock will be engaged in only with, relevant persons.

Switzerland

This prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations (CO) and the shares will not be listed on the SIX Swiss Exchange. Therefore, this prospectus may not comply with the disclosure standards of the CO and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the shares with a view to distribution.

Australia

This prospectus is not a formal disclosure document and has not been, nor will be, lodged with the Australian Securities and Investments Commission. It does not purport to contain all information that an investor or their professional advisers would expect to find in a prospectus or other disclosure document (as defined in the Corporations Act 2001 (Australia)) for the purposes of Part 6D.2 of the Corporations Act 2001 (Australia) or in a product disclosure statement for the purposes of Part 7.9 of the Corporations Act 2001 (Australia), in either case, in relation to the securities.

The securities are not being offered in Australia to retail clients as defined in sections 761G and 761GA of the Corporations Act 2001 (Australia). This offering is being made in Australia solely to wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Australia) and, as such, no prospectus, product disclosure statement or other disclosure document in relation to the securities has been, or will be, prepared.

This prospectus does not constitute an offer in Australia other than to wholesale clients. By submitting an application for our securities, you represent and warrant to us that you are a wholesale client for the purposes of section 761G of the Corporations Act 2001 (Australia). If any recipient of this prospectus is not a wholesale client, no offer of, or invitation to apply for, our securities shall be deemed to be made to such recipient and no applications for our securities will be accepted from such recipient. Any offer to a recipient in Australia. and any agreement arising from acceptance of such offer, is personal and may only be accepted by the recipient. In addition, by applying for our securities you undertake to us that, for a period of 12 months from the date of issue of the securities, you will not transfer any interest in the securities to any person in Australia other than to a wholesale client.

Hong Kong

Our securities may not be offered or sold in Hong Kong, by means of this prospectus or any document other than (i) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong). No advertisement, invitation or document relating to our securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

Our securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and our securities will not be offered or sold, directly or indirectly, in Japan, or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan, or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

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Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore and in Singapore, the offer and sale of our securities is made pursuant to exemptions provided in sections 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (SFA). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our securities may not be circulated or distributed, nor may our securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this document is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Prospective investors in Singapore should consider carefully whether an investment in our securities is suitable for them.

Where our securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) by a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) for a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 of the SFA, except:

(1) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares of that corporation or such rights and interest in that trust are acquired at a consideration of not less than $200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) where the transfer is by operation of law.

In addition, investors in Singapore should note that the securities acquired by them are subject to resale and transfer restrictions specified under Section 276 of the SFA, and they, therefore, should seek their own legal advice before effecting any resale or transfer of their securities.

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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 Fried, Frank, Harris, Shriver & Jacobson LLP, New York, NY.

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INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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 schedule of investments, as of June 30, 2012, and the consolidated statements of operations for the three and nine months ended June 30, 2012 and 2011, changes in net assets, and cash flows for the nine months ended June 30, 2012 and 2011. 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 inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities of PennantPark Investment Corporation and Subsidiaries, including the consolidated schedule of investments, as of September 30, 2011; and in our report dated November 16, 2011, we expressed an unqualified opinion on that financial statement and schedule.

/s/ KPMG LLP

New York, New York

August 8, 2012

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	June 30, 2012 (unaudited)	September 30, 2011
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost $907,304,090 and $816,078,311, respectively)	$ 878,560,096	$ 773,375,381
Non-controlled, affiliated investments, at fair value (cost $29,048,560 and $36,744,425, respectively)	36,046,802	40,673,133
Controlled, affiliated investments, at fair value (cost $14,500,100 and $13,500,100, respectively)	14,500,000	13,500,001
Total Investments, at fair value (cost $950,852,750 and $866,322,836, respectively)	929,106,898	827,548,515
Cash equivalents (See Note 8)	9,316,015	71,604,519
Interest receivable	11,365,159	10,878,236
Receivable for investments sold	36,984,788	13,118,967
Prepaid expenses and other assets	5,386,858	5,587,977
Total assets	992,159,718	928,738,214
Liabilities		
Distributions payable	15,782,855	12,336,241
Payable for investments purchased	30,000,000	18,572,499
Unfunded investments	26,935,270	37,132,151
Credit facility payable (cost $185,100,000 and $240,900,000, respectively) (See Notes 5 and 10)	184,179,000	238,792,125
SBA debentures payable (cost $150,000,000) (See Notes 5 and 10)	150,000,000	150,000,000
Interest payable on credit facility and SBA debentures	2,331,295	687,362
Management fee payable (See Note 3)	4,492,660	4,008,054
Performance-based incentive fee payable (See Note 3)	3,892,683	3,773,829
Accrued other expenses	1,884,446	778,757
Total liabilities	419,498,209	466,081,018
Net Assets		
Common stock, 56,367,339 and 45,689,781 shares issued and outstanding, respectively.		
Par value $0.001 per share and 100,000,000 shares authorized.	56,367	45,690
Paid-in capital in excess of par value	649,247,207	540,603,020
Undistributed net investment income	4,339,635	8,326,854
Accumulated net realized loss on investments	(60,156,848)	(49,651,922)
Net unrealized depreciation on investments	(21,745,852)	(38,774,321)
Net unrealized appreciation on credit facility	921,000	2,107,875
Total net assets	$ 572,661,509	$ 462,657,196
Total liabilities and net assets	$ 992,159,718	$ 928,738,214
Net asset value per share	$ 10.16	$ 10.13

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	$ 25,860,359	$ 21,046,388	$ 74,190,105	$ 60,441,750
Other	2,628,858	1,157,228	5,584,060	3,237,675
From non-controlled, affiliated investments:				
Interest	458,901	389,709	1,581,426	1,134,363
From controlled, affiliated investments:				
Interest	437,500	315,000	1,230,444	785,167
Total investment income	29,385,618	22,908,325	82,586,035	65,598,955
Expenses:				
Base management fee (See Note 3)	4,493,917	3,803,994	12,715,349	10,891,930
Performance-based incentive fee (See Note 3)	3,892,819	3,256,341	10,016,789	9,387,769
Interest and expenses on the credit facility and SBA debentures (See Note 10)	3,206,771	1,329,441	8,318,513	3,551,391
Administrative services expenses (See Note 3)	1,046,991	583,215	2,652,647	1,812,932
Other general and administrative expenses	820,827	680,322	2,561,021	2,211,349
Expenses before taxes and debt issuance costs	13,461,325	9,653,313	36,264,319	27,855,371
Excise tax (See Note 2)	353,697	35,000	633,697	193,824
Debt issuance costs (See Note 5)			5,361,319	
Total Expenses	13,815,022	9,688,313	42,259,335	28,049,195
Net investment income	15,570,596	13,220,012	40,326,700	37,549,760
Realized and unrealized gain (loss) on investments and credit facility:				
Net realized gain (loss) on investments	1,447,084	6,155,867	(10,504,926)	8,735,680
Net change in unrealized (depreciation) appreciation on:				
Non-controlled, non-affiliated investments	(16,576,404)	(14,977,901)	13,958,935	8,486,459
Controlled and non-controlled, affiliated investments	2,799,956	(1,474,634)	3,069,531	(1,435,899)
Credit facility unrealized depreciation (appreciation) (See Notes 5 and 10)	178,500	(604,929)	(1,186,875)	(11,908,375)
Net change in unrealized (depreciation) appreciation	(13,597,948)	(17,057,464)	15,841,591	(4,857,815)
Net realized and unrealized (loss) gain from investments and credit facility	(12,150,864)	(10,901,597)	5,336,665	3,877,865
Net increase in net assets resulting from operations	$ 3,419,732	$ 2,318,415	$ 45,663,365	$ 41,427,625
	$ 0.06	$ 0.05	$ 0.88	$ 1.01

Net increase in net assets resulting from operations per common share (See Note 7)								
Net investment income per common share	$	0.28	$	0.29	$	0.78	$	0.92

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Nine months ended June 30,	
	2012	**2011**
Net increase in net assets from operations:		
Net investment income	$ 40,326,700	$ 37,549,760
Net realized (loss) gain on investments	(10,504,926)	8,735,680
Net change in unrealized appreciation on investments	17,028,466	7,050,560
Net change in unrealized (appreciation) on credit facility	(1,186,875)	(11,908,375)
Net increase in net assets resulting from operations	45,663,365	41,427,625
Distributions to stockholders:		
Distributions from net investment income	(44,313,916)	(34,011,451)
Capital share transactions:		
Public offering	109,192,500	114,080,000
Offering costs relating to public offering	(3,979,000)	(5,743,800)
Reinvestment of dividends	3,441,364	2,611,494
Total increase in net assets	110,004,313	118,363,868
Net Assets:		
Beginning of period	462,657,196	386,575,223
End of period	$ 572,661,509	$ 504,939,091
Undistributed net investment income, at period end	$ 4,339,635	$ 5,532,780
Capital Share Activity:		
Public offering	10,350,000	9,200,000
Shares issued from reinvestment of dividends	327,558	222,312
Total shares issued	10,677,558	9,422,312

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended June 30, 2012	2011
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 45,663,365	$ 41,427,625
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used) by operating activities:		
Net change in unrealized appreciation on investments	(17,028,466)	(7,050,560)
Net change in unrealized appreciation on credit facility	1,186,875	11,908,375
Net realized loss (gain) on investments	10,504,926	(8,735,680)
Net accretion of discount and amortization of premium	(8,093,419)	(5,325,234)
Purchase of investments	(243,803,748)	(342,020,866)
Payment-in-kind income	(7,899,606)	(7,500,291)
Proceeds from dispositions of investments	173,807,481	256,413,079
(Increase) decrease in interest receivable	(486,923)	6,555,830
(Increase) decrease in receivables for investments sold	(23,865,806)	30,254,774
Decrease in prepaid expenses and other assets	201,119	436,479
Increase (decrease) in payables for investments purchased	11,427,501	(10,104,730)
(Decrease) in unfunded investments	(19,242,446)	(3,569,562)
Increase in interest payable on credit facility and SBA debentures	1,643,933	579,818
Increase in management fee payable	484,606	518,803
Increase in performance-based incentive fee payable	118,853	1,056,087
Increase (decrease) in accrued other expenses	1,105,689	(659,162)
Net cash (used) by operating activities	(74,276,066)	(35,815,215)
Cash flows from financing activities:		
Public offering	109,192,500	114,080,000
Offering costs related to public offering	(3,979,000)	(5,743,800)
Distributions paid to stockholders, net of dividends reinvested	(37,425,938)	(28,494,345)
Borrowings under SBA debentures (See Note 10)		60,500,000
Capitalized borrowing costs		(2,132,125)
Borrowings under credit facility (See Note 10)	805,400,000	347,800,000
Repayments under credit facility (See Note 10)	(861,200,000)	(423,200,000)
Net cash provided by financing activities	11,987,562	62,809,730
Net (decrease) increase in cash equivalents	(62,288,504)	26,994,515
Cash equivalents, beginning of period	71,604,519	1,814,451
Cash equivalents, end of period	$ 9,316,015	$ 28,808,966
Supplemental disclosure of cash flow information and non-cash financing activity (See Note 5):		
Interest paid	$ 5,926,880	$ 2,476,198
Income taxes paid	258,550	123,824
Dividends reinvested	3,441,364	2,611,494

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2012

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[4]	Par/ Shares	Cost	Fair Value[3]
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 153.4%[1],[2]							
First Lien Secured Debt 48.1%							
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975[7]	$ 15,000,000	$ 14,401,545	$ 14,550,000
American Surgical Holdings, Inc.	03/23/2015	Healthcare, Education and Childcare	14.00%	L+1,000[7]	18,687,500	18,265,900	18,687,500
Brand Energy and Infrastructure Services, Inc.	02/07/2014	Energy / Utilities	3.73%	L+325	2,000,000	1,716,357	1,878,334
CEVA Group PLC[5],[9]	10/01/2016	Cargo Transport	11.63%		7,500,000	7,348,414	7,818,750
CEVA Group PLC[5],[9]	04/01/2018	Cargo Transport	11.50%		1,000,000	989,777	915,000
Columbus International, Inc.[5],[9]	11/20/2014	Communications	11.50%		10,000,000	10,000,000	10,650,400
Good Sam Enterprises, LLC[5]	12/01/2016	Consumer Products	11.50%		12,000,000	11,786,053	12,495,000
Hanley-Wood, L.L.C.	01/13/2017	Other Media	8.00%	L+650[7]	1,757,311	1,757,311	1,757,311
IDQ Holdings, Inc.[5]	04/01/2017	Auto Sector	11.50%		11,500,000	11,279,372	11,960,000
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950[7]	24,115,645	23,798,411	23,946,835
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950[7]	18,643,750	18,259,042	18,802,222
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.52%	L+225	9,616,892	9,616,892	6,395,233
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675[7]	18,952,500	18,149,848	18,810,356
Kadmon Pharmaceuticals, LLC	10/31/2012	Healthcare, Education and Childcare	15.00%	L+1,300[7]	4,931,494	4,953,816	5,061,143
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,616,858	25,466,448
Penton Media, Inc.	08/01/2014	Other Media	5.00% (PIK%) 1.00	L+400[7]	37,777,218	33,543,580	28,597,354
Pre-Paid Legal Services, Inc., Tranche A	12/30/2016	Personal, Food and Miscellaneous Services	7.50%	L+600[7]	1,634,146	1,612,687	1,601,464
Pre-Paid Legal Services, Inc., Tranche B	12/30/2016	Personal, Food and Miscellaneous Services	11.00%	L+950[7]	35,000,000	34,069,358	34,650,000
Questex Media Group LLC[8]	12/16/2012	Other Media			133,603	133,603	133,603
Tekelec Global Inc. (First Out)	01/29/2018	Telecommunications	9.00%	L+750[7]	2,890,000	2,849,033	2,890,000
Tekelec Global Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200[7]	10,625,000	10,329,504	10,848,125
UP Support Services, Inc.	02/08/2013	Oil and Gas	10.25% (PIK%) 0.75	L+1,000[7]	14,352,239	12,025,984	11,153,423

UP Support Services, Inc.[8]	02/08/2013	Oil and Gas		[7]	1,916,666	1,628,213	1,489,482
Yonkers Racing Corp.[5]	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,398,815	4,781,250
Total First Lien Secured Debt						278,530,373	275,339,233
Second Lien Secured Debt 24.9%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.35%	L+600	13,600,000	13,355,243	11,492,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.40%	L+700	12,000,000	11,851,697	10,500,000
DirectBuy Holdings, Inc.[5],[6]	02/01/2017	Consumer Products			34,000,000	31,964,124	6,970,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy/Utilities	12.50%		50,000,000	49,539,442	50,500,000

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2012

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[(4)]	Par/ Shares	Cost	Fair Value[(3)]
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% (PIK 11.00%)	L+700[(7)]	$ 3,018,217	$ 3,018,220	$ 2,565,487
Paradigm Management Services, LLC	07/31/2017	Healthcare, Education and Childcare	12.50%	L+1,000[(7)]	20,512,821	20,000,066	20,512,821
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650[(7)]	2,760,774	2,760,775	2,578,564
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% (PIK 11.50%)	L+750[(7)]	2,167,928	2,167,929	1,931,623
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,241,670
ROC Finance LLC and ROC Finance 1 Corp.	09/01/2018	Hotels, Motels, Inns and Gaming	12.13%		16,000,000	15,745,944	18,000,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.25%	L+600	7,811,488	7,486,701	7,290,720
Total Second Lien Secured Debt						167,890,141	142,582,885
Subordinated Debt/Corporate Notes 68.4%							
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	18,544,720	19,000,000
Affinion Group Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,106,151	28,086,080
Diversitech Corporation	01/29/2017	Manufacturing/Basic Industry	13.50%		11,000,000	10,830,135	11,192,500
Escort, Inc.	06/01/2016	Electronics	14.75% (PIK 2.75%)		25,077,794	24,548,141	25,077,794
Galls, LLC; Quartermaster Inc.	03/31/2017	Distribution	13.00% (PIK 2.00%)		21,688,819	21,275,627	21,688,819
JF Acquisition, LLC	06/30/2017	Distribution	14.00% (PIK 2.00%)		17,085,944	16,647,729	17,085,944
Last Mile Funding, Corp.	06/30/2016	Cargo Transport	14.50% (PIK 2.50%)		45,307,673	44,382,904	44,809,289
Learning Care Group (US) Inc.	06/30/2016	Education	15.00% (PIK 15.00%)		5,277,718	4,671,118	4,815,918
LTI Flexible Products, Inc.	01/11/2019	Chemical, Plastic and Rubber	12.50%		30,000,000	30,000,000	30,000,000
LTI Flexible Products, Inc.[(8)]	01/11/2014	Chemical, Plastic and Rubber			5,000,000	4,825,000	4,825,000
Mailsouth, Inc.	06/15/2017	Printing and Publishing	14.50%		15,000,000	14,621,864	15,000,000
MedQuist, Inc.	10/14/2016	Business Services	13.00%		19,000,000	18,545,461	20,425,000

PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	15.02% (PIK 3.02%)	17,123,218	16,770,310	17,123,218
Prince Mineral Holdings Corp.	12/03/2016	Mining, Steel, Iron and Non-Precious Metals	13.50% (PIK 2.00%)	26,563,699	26,111,500	26,563,699
Realogy Corp.	04/15/2018	Buildings and Real Estate	11.00%	10,000,000	9,224,503	8,000,000
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%	24,000,000	23,477,796	24,000,000
Service Champ, Inc.(8)	10/02/2013	Auto Sector		16,000,000	15,640,000	16,000,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00%	12,020,950	11,696,732	12,020,950
TrustHouse Services Holdings, LLC	06/01/2019	Beverage, Food, and Tobacco	14.25% (PIK 2.25%)	14,750,000	14,498,833	14,750,000
TrustHouse Services Holdings, LLC (8)	06/01/2014	Beverage, Food, and Tobacco		4,000,000	3,920,000	4,000,000
UP Support Services Inc.(6)	02/08/2015	Oil and Gas		29,137,730	29,099,163	11,189,949
Veritext Corp.	12/31/2015	Business Services	13.00%	16,200,000	15,899,760	16,200,000
Total Subordinated Debt/Corporate Notes					409,337,447	391,854,160

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2012

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index(4)	Par/ Shares	Cost	Fair Value(3)
Preferred Equity/Partnership Interests 1.4%(5)							
AH Holdings, Inc. (American Surgical Holdings, Inc.)		Healthcare, Education and Childcare	6.00%		$ 211	$ 500,000	$ 672,102
AHC Mezzanine, LLC		Other Media			7,505	318,896	
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare	8.00%		76,357	765,307	1,052,231
CI (IHS) Investment Holdings, LLC (8) (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			38,179	382,654	
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media	8.00%		3,591	24,177	27,072
PAS Tech Holdings, Inc., Series A-1 (PAS Technologies, Inc.)		Aerospace and Defense	8.00%		20,000	1,980,000	1,150,185
TrustHouse Services Holdings, LLC		Beverage, Food, and Tobacco	12.00%		1,099	984,344	984,344
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	1,645,184
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas	8.00%		101,175	2,738,050	
Verde Parent Holdings, Inc.		Personal Transportation	8.00%		1,824,167	1,824,167	2,061,364
Total Preferred Equity/Partnership Interests						11,515,421	8,278,302
Common Equity/Warrants/Partnership Interests 10.6%(5)							
Acentia, LLC, Class A Units(12)		Electronics			1,998	2,000,000	1,895,000
AH Holdings, Inc.(Warrants) (American Surgical Holdings, Inc.)	03/23/2021	Healthcare, Education and Childcare			753		2,222,581
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			1,333	3,000,000	
CI (Galls) Prime Investment Holdings, LLC (Galls, LLC; Quartermaster Inc.)(11)		Distribution			1,505,000	1,505,000	1,525,615
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			23,416	234,693	322,699
CI (IHS) Investment Holdings, LLC(8) (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			11,708	117,346	
CT Technologies Holdings, LLC		Business Services			5,556	2,277,209	6,514,483
DirectBuy Investors, L.P.		Consumer Products			30,000	1,350,000	
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media			348,912	2,443,050	2,629,572
					1,079,920	1,236,832	11,173,971

Kadmon Holdings, LLC, Class A (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			
Kadmon Holdings, LLC, Class D (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare	1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Education	1,267	779,920	
Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)		Oil and Gas	1,221,932	3,239,999	5,107,676
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	10/14/2013	Oil and Gas	122,193	105,697	37,630
MidOcean JF Holdings Corp. (JF Acquisition, LLC)		Distribution	1,700	1,700,000	1,570,528
MidOcean PPL Holdings, Inc. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services	3,000	3,000,000	3,965,797

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2012

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index(4)	Par/ Shares	Cost	Fair Value(3)
New Service Champ Holdings, Inc. (Service Champ, Inc.)		Auto Sector			$ 16,800	$ 4,200,000	$ 4,473,000
Paradigm Acquisition Corp. (Paradigm Management Services, LLC)		Healthcare, Education and Childcare			20,000	2,000,000	2,028,189
PAS Tech Holdings, Inc. (PAS Technologies, Inc.)		Aerospace and Defense			20,000	20,000	
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,167	2,237,306
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		274,684
Titan Private Holdings I, LLC Class A (Tekelec Global, Inc.)		Telecommunications			2,276,847	2,274,883	3,793,724
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	1,169,979
Transportation 100 Holdco, L.L.C.(10) (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,111,588	
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,843	1,327,410
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas			110,742	1,107	
Verde Parent Holdings, Inc.		Personal Transportation			9,167	9,167	9,222
VText Holdings, Inc. (Veritext Corp.)		Business Services			35,526	4,050,000	7,197,643
Total Common Equity/Warrants/Partnership Interests						40,030,708	60,505,516
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						907,304,090	878,560,096
Investments in Non-Controlled, Affiliated Portfolio Companies 6.3%(1),(2)							
Second Lien Secured Debt 1.3%							
Performance, Inc.	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625(7)	8,000,000	$ 8,000,000	$ 7,552,000

Total Second Lien Secured Debt						8,000,000	7,552,000
Subordinated Debt/Corporate Notes 1.3%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% (PIK 15.00%)		7,567,234	7,428,396	7,340,217
Common Equity/Partnership Interest 3.7%(6)							
EnviroSolutions, Inc.		Environmental Services			123,418	9,870,164	19,143,137
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000	2,011,448
Total Common Equity/Partnership Interest						13,620,164	21,154,585
Total Investments in Non-Controlled, Affiliated Portfolio Companies						**29,048,560**	**36,046,802**

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2012

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index(4)	Par/ Shares	Cost	Fair Value (3)
Investments in Controlled, Affiliated Portfolio Companies 2.6%(1),(2)							
First Lien Secured Debt 1.9%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%		$ 10,000,000	$ 10,000,000	$ 10,492,807
Subordinated Debt/Corporate Notes 0.4%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%		2,500,000	2,500,000	2,276,581
Preferred Equity 0.3%(6)							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,730,612
Common Equity 0.0%(6)							
SuttonPark Holdings, Inc.		Business Services			100	100	
Total Investments in Controlled, Affiliated Portfolio Companies						14,500,100	14,500,000
Total Investments 162.3%						950,852,750	929,106,898
Cash Equivalents 1.6%						9,316,015	9,316,015
Total Investments and Cash Equivalents 163.9%						**$ 960,168,765**	**$ 938,422,913**
Liabilities in Excess of Other Assets (63.9%)							(365,761,404)
Net Assets 100.0%							**$ 572,661,509**

(1) The provisions of the Investment Company Act of 1940, as amended, or the 1940 Act, classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company s voting securities and controlled when we own 25% or more of a portfolio company s voting securities.
(2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company s voting securities and affiliated when we own 5% or more of a portfolio company s voting securities.
(3) Valued based on our accounting policy (see Note 2).
(4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or L, or Prime Rate, or Prime or P .
(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, usually to qualified institutional buyers.
(6) Non-income producing securities.
(7) Coupon is subject to a LIBOR or Prime rate floor.
(8) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.

(9) Non-U.S. company or principal place of business outside the United States.
(10) Investment is held through PNNT Transportation 100 Holdco, LLC, a consolidated subsidiary.
(11) Investment is held through PNNT CI (GALLS) Prime Investments Holdings, LLC, a consolidated subsidiary.
(12) Investment is held through PNNT Acentia, LLC, a consolidated subsidiary.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[4]	Par/ Shares	Cost	Fair Value[3]
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 167.2%[1],[2]							
First Lien Secured Debt 60.6%							
American Surgical Holdings, Inc.	03/23/2015	Healthcare, Education and Childcare	14.00%	L+1,000[8]	$ 20,300,000	$ 19,748,930	$ 20,300,000
CEVA Group PLC[5],[10]	10/01/2016	Logistics	11.63%		7,500,000	7,328,729	7,331,250
CEVA Group PLC[5],[10]	04/01/2018	Logistics	11.50%		1,000,000	988,872	920,000
Chester Downs and Marina, LLC	07/29/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988[8]	11,358,254	11,024,166	11,310,924
Columbus International, Inc.[5],[10]	11/20/2014	Communications	11.50%		10,000,000	10,000,000	9,800,000
Covad Communications Group, Inc.[5]	11/03/2015	Telecommunications	12.00%	L+1,000[8]	6,475,000	6,362,696	6,345,500
Good Sam Enterprises, LLC[5] (f/k/a Affinity Group Holdings Inc.)	12/01/2016	Consumer Products	11.50%		12,000,000	11,759,625	11,220,000
Hanley-Wood, L.L.C.	03/10/2014	Other Media	2.56%	L+225	8,662,500	8,662,500	4,222,969
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950[8]	24,625,000	24,227,464	25,683,875
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950[8]	19,000,000	18,572,500	18,572,500
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.51%	L+225	9,671,622	9,671,622	6,866,851
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675[8]	18,952,500	18,002,959	18,004,875
Kadmon Pharmaceuticals, LLC (f/k/a Three Rivers Pharmaceutical, L.L.C.)	10/22/2011	Healthcare, Education and Childcare	15.00%	L+1,300[8]	29,066,987	27,940,332	30,811,006
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,555,967	25,401,316
Penton Media, Inc.	08/01/2014	Other Media	5.00%[6]	L+400[8]	37,779,699	32,241,162	26,130,971
Prepaid Legal Services, Inc., Tranche A	12/30/2016	Personal, Food and Miscellaneous Services	7.50%[6]	L+600[8]	2,000,000	1,970,966	1,900,000
Prepaid Legal Services, Inc., Tranche B	12/30/2016	Personal, Food and Miscellaneous Services	11.00%[6]	L+950[8]	35,000,000	33,978,263	33,250,000
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+550[8]	26,721	26,721	26,721
Questex Media Group LLC[9]	12/16/2012	Other Media			240,485	240,485	240,485
VPSI, Inc.	12/23/2015	Personal Transportation	12.00%	L+1,000[8]	17,302,083	17,047,133	17,215,572
Yonkers Racing Corp.[5]	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,391,231	4,590,000
Total First Lien Secured Debt						289,742,323	280,144,815
Second Lien Secured Debt 32.9%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.30%	L+600	13,600,000	13,300,431	11,832,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.33%	L+700	12,000,000	11,821,275	10,680,000

DirectBuy Holdings, Inc.[5]	02/01/2017	Consumer Products	12.00%		34,000,000	31,944,865	10,710,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy / Utilities	12.50%[6]		31,000,000	31,000,000	31,000,000
Eureka Hunter Pipeline, LLC[9]	08/15/2012	Energy / Utilities			19,000,000	18,525,000	18,525,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00%[6]	L+700[8]	2,860,871	2,860,871	2,860,871
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650[8]	2,971,450	2,971,450	2,692,134
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%[6]	L+750[8]	1,990,370	1,990,370	1,737,593
RAM Energy Resources, Inc.	09/13/2016	Oil and Gas	11.00%	L+900[8]	17,000,000	16,672,749	16,830,000
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	9,760,000
ROC Finance LLC and ROC Finance 1 Corp.	09/01/2018	Hotels, Motels, Inns and Gaming	12.13%		16,000,000	15,726,668	16,160,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.07%[6]	L+575	13,500,000	11,856,253	12,521,250
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.24%[6]	L+600	7,811,488	7,422,480	6,756,937
Total Second Lien Secured Debt						176,092,412	152,065,785

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2011

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index(4)	Par/ Shares	Cost	Fair Value(3)
Subordinated Debt/Corporate Notes 65.0%							
Affinion Group Holdings, Inc.(5)	11/15/2015	Consumer Products	11.63%		$ 26,345,000	$ 26,391,240	$ 20,285,650
Aquilex Holdings, LLC(5)	12/15/2016	Diversified / Conglomerate Services	11.13%		18,885,000	18,440,262	8,309,400
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25%(6)		8,109,468	7,997,216	8,109,468
Diversitech Corporation	01/29/2017	Manufacturing / Basic Industry	13.50%(6)		11,000,000	10,783,491	10,780,000
Escort, Inc.	06/01/2016	Electronics	14.75%(6)		24,560,142	23,964,150	24,314,541
Last Mile Funding, Corp.	06/30/2016	Cargo Transport	14.50%(6)		44,456,391	43,380,579	43,344,981
Learning Care Group (US) Inc.	06/30/2016	Education	15.00%(6)		4,566,982	3,891,689	4,133,119
LTI Flexible Products, Inc.	01/26/2017	Chemical, Plastic and Rubber	13.88%(6)		33,937,985	33,119,280	33,768,295
Mailsouth, Inc.	06/15/2017	Printing and Publishing	14.50%(6)		15,000,000	14,579,991	14,640,000
MedQuist, Inc.	10/14/2016	Business Services	13.00%(6)		19,000,000	18,492,685	19,950,000
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	14.02%(6)		16,785,000	16,400,403	16,600,365
Prince Mineral Holdings Corp.	12/03/2016	Mining, Steel, Iron and Non-Precious Metals	13.50%(6)		26,169,195	25,667,843	25,645,811
Realogy Corp.	04/15/2018	Buildings and Real Estate	11.00%		10,000,000	9,159,259	7,800,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00%(6)		12,020,950	11,683,548	11,984,887
UP Support Services Inc.	02/08/2015	Oil and Gas	19.00%(6)		26,276,070	26,063,224	24,173,984
Veritext Corp.	12/31/2015	Business Services	14.00%(6)		15,000,000	14,686,238	15,000,000
Veritext Corp.(9)	12/31/2012	Business Services			12,000,000	11,700,000	12,000,000
Total Subordinated Debt/Corporate Notes						316,401,098	300,840,501
Preferred Equity/Partnership Interests 1.7%(7)							
AH Holdings, Inc. (American Surgical Holdings, Inc.)		Healthcare, Education and Childcare	6.00%		211	500,000	491,004
AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			7505	318,896	
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		909	909,248	1,328,977
PAS Tech Holdings, Inc., Series A-1 (PAS Technologies, Inc.)		Aerospace and Defense	8.00%		20,000	1,980,000	2,026,969
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	1,581,165
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas	8.00%		101,175	2,738,050	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation	8.00%		1,824,167	1,824,167	1,911,003
						10,268,187	8,024,938

Total Preferred Equity/Partnership Interests					
Common Equity/Warrants/Partnership Interests 7.0%[7]					
AH Holdings, Inc. (American Surgical Holdings, Inc.) (Warrants)	03/23/2021	Healthcare, Education and Childcare	753		
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment	1,333	3,000,000	280,176
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense	1,856	18,556	1,443,556
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services	5,556	2,277,209	8,431,871
DirectBuy Investors, L.P.		Consumer Products	30,000	1,350,000	469,500

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2011

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[4]	Par / Shares	Cost	Fair Value[3]
Kadmon Corporation, LLC, Class A (f/k/a Kadmon Holdings, LLC) (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			$ 1,079,920	$ 1,236,832	$ 295,205
Kadmon Corporation, LLC, Class D (f/k/a Kadmon Holdings, LLC) (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Education			1,267	779,920	112,064
Magnum Hunter Resources Corporation		Oil and Gas			1,221,932	3,239,999	4,044,595
Magnum Hunter Resources Corporation (Warrants)	10/14/2013	Oil and Gas			122,193	105,697	61,091
MidOcean PPL Holdings, Inc. (Pre-Paid LegalServices, Inc.)		Personal, Food and Miscellaneous Services			3,000	3,000,000	3,320,146
PAS Tech Holdings, Inc. (PAS Technologies, Inc.)		Aerospace and Defense			20,000	20,000	101,931
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,167	1,352,585
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		166,063
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	577,061
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,111,588	1,521,406
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,843	1,591,505
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas			110,742	1,107	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation			9,166	9,166	
Vtext Holdings, Inc. (Veritext Corp.)		Business Services			35,526	4,050,000	7,501,780
Total Common Equity/Warrants/Partnership Interests						23,574,291	32,299,342
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						816,078,311	773,375,381
Investments in Non-Controlled, Affiliated Portfolio Companies 8.8%[1],[2]							
First Lien Secured Debt 1.4%							
EnviroSolutions, Inc.[9]	07/29/2013	Environmental Services			6,666,666	6,666,666	6,666,666
Second Lien Secured Debt 2.9%							
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600[8]	5,870,416	5,870,416	5,870,416
Performance, Inc.	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625[8]	8,000,000	8,000,000	7,336,000

Total Second Lien Secured Debt					13,870,416	13,206,416
Subordinated Debt/Corporate Notes 1.4%						
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00%(6)	6,775,991	6,617,860	6,403,311
Common Equity/Partnership Interest 3.1%(7)						
EnviroSolutions, Inc.		Environmental Services		37,382	2,710,036	5,641,925
EnviroSolutions, Inc. (Warrants)		Environmental Services		50,102	3,129,447	7,561,205

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2011

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[4]	Par/ Shares	Cost	Fair Value[3]
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			$ 375,000	$ 3,750,000	$ 1,193,610
Total Common Equity/Partnership Interest						9,589,483	14,396,740
Total Investments in Non-Controlled, Affiliated Portfolio Companies						36,744,425	40,673,133
Investments in Controlled, Affiliated Portfolio Companies 2.9%[1],[2]							
First Lien Secured Debt 2.1%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%[6]		9,200,000	9,200,000	9,676,650
Subordinated Debt/Corporate Notes 0.5%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%[6]		2,300,000	2,300,000	2,085,357
Preferred Equity 0.4%[7]							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,737,994
Common Equity 0.0%[7]							
SuttonPark Holdings, Inc.		Business Services			100	100	
Total Investments in Controlled, Affiliated Portfolio Companies						13,500,100	13,500,001
Total Investments 178.9%						866,322,836	827,548,515
Cash Equivalents 15.5%						71,604,519	71,604,519
Total Investments and Cash Equivalents 194.3%						**$ 937,927,355**	**$ 899,153,034**
Liabilities in Excess of Other Assets (94.3%)							(436,495,838)
Net Assets 100.0%							**$ 462,657,196**

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

(2)

The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company s voting securities and affiliated when we own 5% or more of a portfolio company s voting securities.

(3) Valued based on our accounting policy (see Note 2).

(4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or Prime rate.

(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, usually to qualified institutional buyers.

(6) Coupon is payable in cash and/or through PIK.

(7) Non-income producing securities.

(8) Coupon is subject to a LIBOR or Prime rate floor.

(9) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.

(10) Non-U.S. company or principal place of business outside the United States.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

Except where the context suggests otherwise, the terms we, us, our or PennantPark Investment refer to PennantPark Investment Corporation. References to our portfolio and investments include investments made through our consolidated SBIC subsidiary.

1. ORGANIZATION

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

On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol PNNT. We completed our initial public offering of common stock in 2007 and issued 21.0 million shares raising $294.1 million in net proceeds. Since our initial public offering, we have sold 34.6 million shares of common stock through follow-on public offerings, resulting in net proceeds of $347.7 million. During the nine months ended June 30, 2012, we sold approximately 10.4 million shares in a follow-on public offering, resulting in net proceeds of $105.2 million, after estimated offering costs.

We are externally managed by PennantPark Investment Advisers. PennantPark Investment Administration provides the administrative services necessary for us to operate. PennantPark Investment, through the Investment Adviser, manages day-to-day operations of and provides investment advisory services to SBIC LP under a separate investment management agreement. PennantPark Investment, through the Administrator, also provides similar services to SBIC LP and our controlled affiliate SuttonPark Holdings, Inc. and its subsidiaries, or SPH, under separate administration agreements. See Note 3.

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

We have formed and expect to continue to form certain taxable subsidiaries, or the Taxable Subsidiaries, which are taxed as corporations for federal income tax purposes. These Taxable Subsidiaries allow us to hold portfolio companies organized as pass-through entities and satisfy the requirements of regulated investment companies, or RICs, under the Internal Revenue Code of 1986, as amended, or the Code.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported period. Actual results could differ from these estimates. We have eliminated all intercompany balances and transactions, if any. References to the Accounting Standards

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

Codification, or ASC, serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

Our Consolidated Financial Statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders Equity.

Our significant accounting policies consistently applied are as follows:

(a) Investment Valuations

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two broker/dealers if available, or otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

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

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

(1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;

(3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management s preliminary valuations in light of their own independent assessment and also in

light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

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

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

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

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in portfolio investments and our senior secured revolving credit facility, or the Credit Facility, values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

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

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

(c) Income Taxes

Since May 2007, PennantPark Investment has complied with the requirements of Subchapter M of the Code and expects to be subject to tax as a RIC. As a result, PennantPark Investment accounts for income taxes using the asset liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Based upon PennantPark Investment s qualification and election to be subject to tax as a RIC, we do not anticipate paying any material level of federal income taxes in the future. Although we are not subject to tax as a RIC, we have elected to retain a portion of our calendar year income and recorded an excise tax of approximately $0.6 million and $0.2 million for the nine months ended June 30, 2012 and 2011, respectively.

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

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PennantPark Investment recognizes in its Consolidated Financial Statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. We did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2008 remain subject to examination by the Internal Revenue Service and the state department of revenue.

Book and tax basis differences relating to permanent book and tax differences are reclassified among PennantPark Investment s capital accounts, as appropriate. Additionally, the tax character of distributions is determined in accordance with income tax regulations that may differ from GAAP.

We do not consolidate the Taxable Subsidiaries for income tax purposes, but we do consolidate the results of these Taxable Subsidiaries for financial reporting purposes.

(d) Dividends, Distributions, and Capital Transactions

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

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

(e) Consolidation

As permitted under Regulation S-X and as explained by ASC 946-810-45, PennantPark Investment will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we have consolidated the results of the Subsidiaries in our Consolidated Financial Statements.

3. AGREEMENTS

PennantPark Investment s investment management agreement, or the Investment Management Agreement, with the Investment Adviser was re-approved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2012. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of PennantPark Investment s board of directors, manages the day-to-day operations of and provides investment advisory services to PennantPark Investment. SBIC LP s investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets (net of U.S. Treasury Bills and/or temporary draws, if any, on the Credit Facility). The base management fee is

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

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payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For the three and nine months ended June 30, 2012, the Investment Adviser earned a base management fee of $4.5 million and $12.7 million, respectively, from us. For the three and nine months ended June 30, 2011, the Investment Adviser earned a base management fee of $3.8 million and $10.9 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, distribution income and any other income, including any other fees other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are adjusted for any share issuances or repurchases during the applicable quarter. For the three and nine months ended June 30, 2012, the Investment Adviser earned an incentive fee of $3.9 million and $10.0 million, respectively, from us. For the three and nine months ended June 30, 2011, the Investment Adviser earned an incentive fee of $3.3 million and $9.4 million, respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) 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. The performance based incentive fee on capital gains due to our Investment Adviser as calculated under the Investment Management Agreement (as described above) for the three and nine months ended June 30, 2012 and June 30, 2011 resulted in no accrual.

In calculating the capital gains incentive fee accrual we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and aggregate cumulative unrealized capital appreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal

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to 20.0% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future.

PennantPark Investment s Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2012. Under the Administration Agreement, PennantPark Investment Administration provides administrative services for PennantPark Investment. The Administrator provides similar services to SBIC LP under its administration agreement with PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment reimburses the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and PennantPark Investment s allocable portion of the costs of compensation and related expenses for its chief compliance officer, chief financial officer and their respective staffs. The Administrator also offers, on PennantPark Investment s behalf, managerial assistance to portfolio companies to which PennantPark Investment is required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statement of Operations. For the three and nine months ended June 30, 2012, the Investment Adviser and Administrator, collectively, were reimbursed $0.6 million and $3.0 million, respectively, from us, including expenses incurred by the Investment Adviser on behalf of the Administrator, for the services described above. For the three and nine months ended June 30, 2011, the Investment Adviser and Administrator, collectively, were reimbursed $0.3 million and $2.2 million, respectively, from us, including expenses incurred by the Investment Adviser on behalf of the Administrator, for the services described above.

PennantPark Investment entered into an administration agreement with its controlled affiliate, Sutton Park Holdings, or SPH. Under the administration agreement with SPH, or the SPH Administration Agreement, PennantPark Investment through the Administrator furnishes SPH with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Additionally, the Administrator performs or oversees the performance of SPH s required administrative services, which include, among other things, maintaining financial records, preparing financial reports and filing of tax returns. Payments under the SPH Administration Agreement are equal to an amount based upon SPH s allocable portion of the Administrator s overhead in performing its obligations under the SPH Administration Agreement, including rent and allocable portion of the cost of compensation and related expenses of our chief financial officer and his respective staffs. For the three and nine months ended June 30, 2012, PennantPark Investment was reimbursed $0.1 million and $0.6 million, respectively, for the services described above. For the three and nine months ended June 30, 2011, PennantPark Investment was reimbursed zero and $0.4 million, respectively, for the services described above.

4. INVESTMENTS

Purchases of long-term investments, including PIK, for the three and nine months ended June 30, 2012 totaled $91.7 million and $251.7 million, respectively. For the same period in the prior year, purchases of long-term investments including PIK totaled $147.8 million and $349.5 million, respectively. Sales and repayments of long-term investments for the three and nine months ended June 30, 2012 totaled $55.3 million and $173.8 million,

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respectively. For the same period in the prior year, sales and repayments of long-term investments totaled $119.3 million and $256.4 million, respectively. Investments and cash equivalents consisted of the following:

	June 30, 2012		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value
First lien	$ 288,530,373	$ 285,832,040	$ 305,608,989	$ 296,488,131
Second lien	175,890,141	150,134,885	189,962,828	165,272,201
Subordinated debt / corporate notes	419,265,843	401,470,958	325,318,958	309,329,169
Preferred equity	13,515,421	10,008,914	12,268,187	9,762,932
Common equity	53,650,972	81,660,101	33,163,874	46,696,082
Total investments	950,852,750	929,106,898	866,322,836	827,548,515
Cash equivalents	9,316,015	9,316,015	71,604,519	71,604,519
Total investments and cash equivalents	$ 960,168,765	$ 938,422,913	$ 937,927,355	$ 899,153,034

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash equivalents) in such industries as of June 30, 2012 and September 30, 2011.

Industry Classification	June 30, 2012	September 30, 2011
Healthcare, Education and Childcare	9%	10%
Business Services	8	11
Energy / Utilities	8	9
Auto Sector	6	
Cargo Transport	6	6
Chemicals, Plastics and Rubber	6	6
Consumer Products	5	5
Distribution	5	
Electronics	5	3
Other Media	4	4
Personal, Food and Miscellaneous Services	4	5
Printing and Publishing	4	5
Communication	3	1
Education	3	4
Hotels, Motels, Inns and Gaming	3	4
Mining, Steel, Iron and Non-Precious Metals	3	3
Oil and Gas	3	5
Aerospace and Defense	2	4
Beverage, Food and Tobacco	2	
Buildings and Real Estate	2	2
Environmental Services	2	3
	2	2

Leisure, Amusement, Motion Pictures, Entertainment		
Telecommunications	2	
Other	3	8
Total	100%	100%

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5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by a disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence was available. Corroborating evidence that would result in classifying these non-binding brokers/dealer bids as a Level 2 asset includes observable market-based transactions for the same or similar assets or other relevant observable market based inputs that may be used in pricing an asset.

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Within our fair value hierarchy table, our investments are generally categorized as first lien, second lien, subordinated debt and preferred and common equity investments. 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.

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A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the nine months ended June 30, 2012, our ability to observe valuation inputs has resulted in no reclassification of assets from Level 3 to 2. There were no investments transferred between Levels 1 and 2 for the same period.

In addition to using the above inputs in cash equivalents, investments and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value. See Note 2.

In accordance with ASU 2011-04 and as outlined in the table below, our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids include a disclaimer, have no corroborating evidence and may be the result of consensus pricing. We do not adjust the bids.

The remainder of our portfolio, including our long-term Credit Facility, is classified as Level 3 and was valued using a market comparable or an enterprise market value technique. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company s ability to make payments, its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the pricing indicated by the external event is used to corroborate the valuation. When using earnings multiples to value a portfolio company, the multiple used requires the use of judgment and estimates in determining how a market participant would price such an asset. Generally, the sensitivity of unobservable inputs or combination of inputs such as industry comparable companies, market outlook, consistency, discount rates and reliability of earnings and prospects for growth, or lack thereof, affects the multiple used in pricing an investment. As a result, any change in any one of those factors may have a significant impact on the valuation of an investment.

Asset Category	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range of Input (Weighted Average)**
First lien, second lien, subordinated debt/corporate notes	$ 229,795,351	Market Comparable	Broker/ Dealer bid quotes	1 5
First lien, second lien, subordinated debt/corporate notes	$ 568,905,751	Market Comparable	Market Yield	8.5% 22.0% (13.5%)
Preferred and common equity	$ 86,524,010	Enterprise Market Value	EBITDA multiple	5.0X 15.5X (7.0X)
Long-Term Credit Facility	$ 184,179,000	Market Comparable	Discount rate	3.7%

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On June 30, 2012 and September 30, 2011, our cash equivalents, investments and our Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes.

		Fair Value at June 30, 2012		
Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Loan and debt investments	$ 837,437,883	$	$ 38,736,480	$ 798,701,403
Equity investments	91,669,015	5,107,676	37,630	86,523,709
Total investments	929,106,898	5,107,676	38,774,110	885,225,112
Cash equivalents	9,316,015	9,316,015		
Total investments and cash equivalents	938,422,913	14,423,691	38,774,110	885,225,112
Credit Facility	$ 184,179,000	$	$	$ 184,179,000

		Fair Value at September 30, 2011		
Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Loan and debt investments	$ 771,089,501	$	$ 38,395,050	$ 732,694,451
Equity investments	56,459,014	4,044,595	61,091	52,353,328
Total investments	827,548,515	4,044,595	38,456,141	785,047,779
Cash equivalents	71,604,519	71,604,519		
Total investments and cash equivalents	$ 899,153,034	$ 75,649,114	$ 38,456,141	$ 785,047,779
Credit Facility	$ 238,792,125	$	$	$ 238,792,125

The following tables show a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3) for the nine months ended June 30, 2012 and 2011:

	For the nine months ended June 30, 2012		
Description	**Loan and debt investments**	**Equity investments**	**Totals**
Beginning Balance, September 30, 2011	$ 732,694,451	$ 52,353,328	$ 785,047,779
Realized gains (losses)	(2,334,276)	1,871,266	(463,010)
Unrealized appreciation	(7,513,982)	12,436,050	4,922,068
Purchases, PIK and net discount accretion	242,660,994	25,261,207	267,922,201
Sales / repayments	(166,805,784)	(5,398,142)	(172,203,926)
Exchanges			

Transfers in or out of Level 3			
Ending Balance, June 30, 2012	$ 798,701,403	$ 86,523,709	$ 885,225,112
Net change in unrealized appreciation for the period reported within the net change in unrealized appreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date	$ (6,124,283)	$ 14,280,779	$ 8,156,496

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	For the nine months ended June 30, 2011		
Description	**Loan and debt investments**	**Equity investments**	**Totals**
Beginning Balance, September 30, 2010	$ 615,236,138	$ 45,137,828	$ 660,373,966
Realized gains	8,735,698		8,735,698
Unrealized appreciation	(7,996,465)	11,229,930	3,233,465
Purchases, PIK and net discount accretion	349,129,365	5,664,360	354,793,725
Sales / repayments	(255,345,930)	(1,067,166)	(256,413,096)
Transfers in or out of Level 3	(28,646,063)		(28,646,063)
Ending Balance, June 30, 2011	$ 681,112,743	$ 60,964,952	$ 742,077,695
Net change in unrealized appreciation for the period reported within the net change in unrealized depreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date	$ (1,066,913)	$ 11,234,463	$ 10,167,550

The following tables show a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the nine months ended June 30, 2012 and 2011.

Nine months ended June 30, 2012

Credit Facility	**Carrying / Fair Value**
Beginning balance, September 30, 2011 (Cost $240,900,000)	$ 238,792,125
Total unrealized appreciation included in earnings	1,186,875
Borrowings(1)	499,500,000
Repayments(1)	(556,200,000)
Transfers in and/or out of Level 3	
Ending Balance, June 30, 2012 (Cost $184,200,000)	183,279,000
Temporary draw outstanding, at cost	900,000
Total Credit Facility, June 30, 2012 (Cost $185,100,000)	$ 184,179,000

Nine months ended June 30, 2011

Credit Facility	**Carrying / Fair Value**
Beginning balance, September 30, 2010 (Cost $227,900,000)	$ 213,941,125
Total unrealized appreciation included in earnings	11,908,375
Borrowings(1)	187,900,000

Repayments[1]	(279,100,000)
Transfers in and/or out of Level 3	
Ending Balance, June 30, 2011 (Cost $136,700,000)	$ 134,649,500
Temporary draw outstanding, at cost	21,000,000
Total Credit Facility, June 30, 2011 (Cost $157,700,000)	$ 155,649,500

(1) Excludes temporary draws.

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We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for the Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred non-recurring expenses of $5.4 million, which represents the upfront fees and expenses related to the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company s choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility are recorded in the Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three and nine months ended June 30, 2012, our Credit Facility had a net change in unrealized depreciation (appreciation) of $0.2 million and $(1.2) million, respectively. For the three and nine months ended June 30, 2011, our Credit Facility had a net change in unrealized appreciation of $0.6 million and $11.9 million, respectively. On June 30, 2012 and September 30, 2011, net unrealized appreciation on our long-term Credit Facility totaled $0.9 million and $2.1 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments.

6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated company is a company in which we have ownership of 5% or more of the portfolio company s voting securities. A controlled affiliate is a company in which we own 25% or more of a portfolio company s voting securities. Advances to and distributions from affiliates are included in the Consolidated Statements of Cash Flow under purchases and sales. Transactions related to our investments with both controlled and non-controlled affiliates for the nine months ended June 30, 2012 were as follows:

Name of Investment	Fair Value at September 30, 2011	Purchase of / Advances to Affiliates	Sales of / Distributions from Affiliates	Income Received	Fair Value at June 30, 2012	Capital Loss
Controlled Affiliates						
SuttonPark Holdings, Inc.	$ 13,500,001	$ 4,500,000	$ (3,500,000)	$ 1,609,611	$ 14,500,000	
Non-Controlled Affiliates						
Envirosolutions, Inc.	25,740,212	6,629,754	(8,458,481)	303,014	19,143,137	(11,007)
Performance Holdings, Inc.	$ 14,932,921	$	$	$ 807,728	$ 16,903,665	$
Total Controlled and Non-Controlled Affiliates	$ 54,173,134	$ 11,129,754	$ (11,958,481)	$ 2,720,353	$ 50,546,802	$ (11,007)

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7. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

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

Class and Year	Three months ended June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2012	Nine months ended June 30, 2011
Numerator for net increase in net assets resulting from operations	$ 3,419,732	$ 2,318,415	$ 45,663,365	$ 41,427,625
Denominator for basic and diluted weighted average shares	56,365,576	45,581,083	51,680,907	41,018,710
Basic and diluted net increase in net assets per share resulting from operations	$ 0.06	$ 0.05	$ 0.88	$ 1.01

8. CASH EQUIVALENTS

Cash equivalents represent cash pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedules of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing the Investment Adviser s management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of June 30, 2012 and September 30, 2011, cash equivalents consisted of $9.3 million and $71.6 million, including amounts in money market funds, respectively.

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9. FINANCIAL HIGHLIGHTS

Our net assets and net asset value per share on June 30, 2012 and 2011 were $572.7 million and $10.16 per share and $504.9 million and $11.08 per share, respectively. Below are the financial highlights for the nine months ended June 30, 2012 and 2011.

	Nine months ended June 30, 2012	Nine months ended June 30, 2011
Per Share Data:		
Net asset value, beginning of period	$ 10.13	$ 10.69
Net investment income[1]	0.78	0.92
Net change in realized and unrealized gain[1]	0.10	0.09
Net increase in net assets resulting from operations[1]	0.88	1.01
Dividends to stockholders[1] [2]	(0.86)	(0.83)
Accretive effect of common stock issuance	0.09	0.35
(Dilutive) effect of offering costs	(0.08)	(0.14)
Net asset value, end of period	$ 10.16	$ 11.08
Per share market value, end of period	$ 10.35	$ 11.21
Total return*[3]	25.70%	13.00%
Shares outstanding at end of period	56,367,339	45,581,083
Ratios / Supplemental Data:**		
Ratio of operating expenses to average net assets	7.12%	7.17%
Ratio of Credit Facility and SBA debentures related interest and expenses to average net assets	3.41%	1.04%
Ratio of total expenses to average net assets	10.53%	8.21%
Ratio of net investment income to average net assets	10.04%	10.99%
Net assets at end of period	$ 572,661,509	$ 504,939,091
Average debt outstanding	$ 334,601,095	$ 249,441,641
Average debt per share	$ 6.47	$ 6.08
Portfolio turnover ratio	26.92%	47.78%

* Not annualized for periods less than one year.

** Annualized for periods less than one year.

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

(2) Dividends and distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

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

10. CREDIT FACILITY AND SBA DEBENTURES

Credit Facility

On February 21, 2012, we amended and restated our multi-currency Credit Facility, which increased the size of the Credit Facility from $315.0 million to $380.0 million, with certain lenders and SunTrust Bank, acting as administrative agent and JPMorgan Chase Bank, N.A., as syndication agent for the lenders. As of June 30, 2012 and September 30, 2011, there was $185.1 million (including a temporary draw of $0.9 million) and $240.9 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.01% and 1.27%, exclusive of the fee on undrawn commitments of 0.50% and 0.20%,

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respectively. The Credit Facility is a four-year revolving facility, with a stated maturity date of February 21, 2016, with a one-year term-out period following its third year and pricing is set at 275 basis points over LIBOR. The Credit Facility is secured by substantially all of the assets of the Company excluding assets held by our SBIC.

In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing, excluding SBA debentures, pursuant to exemptive relief from the Securities and Exchange Commission, or SEC. For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on February 22, 2012 and the Credit Facility agreement filed as an exhibit to our Form 10-Q filed on May 2, 2012. As of June 30, 2012, we were in compliance with our covenants relating to our Credit Facility.

SBA Debentures

SBIC LP is able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with $75.0 million of equity capital and had SBA debentures outstanding of $150.0 million as of June 30, 2012. SBA debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of $150.0 million, which is up to twice its potential regulatory capital. SBIC LP has accessed the maximum borrowing with its $75.0 million in regulatory capital.

As of June 30, 2012, $150.0 million in debt commitments were fully drawn with a weighted average interest rate of 3.70% exclusive of the 3.43% in upfront fees (4.04% after upfront fees). The SBA debentures upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance at a 2.43% discount to face. Both fees are amortized over the lives of the loans. Our fixed rate SBA debentures as of June 30, 2012 and September 30, 2011 were as follows:

Issuance Dates	Maturity	Fixed All-in Coupon Rate(1)	Principal Balance
September 22, 2010	September 1, 2020	3.50%	$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000
Weighted average rate/total		3.70%	$ 150,000,000

(1) Excluding 3.43% of upfront fees.

Under SBA regulations, SBIC LP is subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investing in certain industries, requiring capitalization thresholds and being subject to periodic audits and examinations of its financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). If our SBIC subsidiary fails to comply with applicable SBA regulations the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable and/or limit it from making new investments. These actions by the SBA would, in turn, negatively affect us

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

because SBIC LP is wholly owned by us. As of June 30, 2012, SBIC LP was in compliance with our requirements relating to our SBA debentures.

On June 1, 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage requirement to exclude the SBA debentures from the calculation. Accordingly, 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 net asset value may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our Credit Facility and SBA debentures depend on many factors, some of which are beyond our control. Material net asset devaluation could have a material adverse effect on our operations and could require us to reduce our borrowings under our Credit Facility and SBA debentures in order to comply with certain covenants including the ratio of total assets to total indebtedness.

11. COMMITMENTS AND CONTINGENCIES

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

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Awareness Letter of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

PennantPark Investment Corporation and subsidiaries

Re: Securities Act of 1933 Registration No. 333-172524 and Investment Company Act of 1940 File No. 814-00736.

With respect to the supplement to the subject registration statement, we acknowledge our awareness of the use therein of our report dated August 8, 2012 related to our review of interim financial information.

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

/s/ KPMG LLP

New York, New York

September 24, 2012

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PROSPECTUS DATED JANUARY 6, 2012

$1,000,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

Units

PennantPark Investment Corporation is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended (the 1940 Act).

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of senior secured loans, mezzanine debt, and equity investments. We can offer no assurances that we will achieve our investment objectives.

We are managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, together or separately, up to $1,000,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, debt securities, or units, which we refer to, collectively, as the securities. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission (the SEC) may permit. See Risk Factors on page 7 and Sales of Common Stock Below Net Asset Value on page 42 of this prospectus for more information.

Our common stock has been approved for quotation on the NASDAQ Global Select Market under the symbol PNNT. The last reported closing price for our common stock on December 16, 2011 was $10.16 per share, and our net asset value on September 30, 2011 was $10.13 per share.

This prospectus and any accompanying prospectus supplement contain important information you should know before investing in our securities. Please read them before you invest in our securities and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may also obtain such information free of charge or make stockholder inquiries by contacting us in writing at 590 Madison Avenue, New York, NY 10022, by calling us collect at (212) 905-1000 or by visiting our website at *www.pennantpark.com*. The information on our website is not incorporated by reference into this prospectus. The SEC also maintains a website at *www.sec.gov* that contains such information free of charge.

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

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

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

Prospectus dated January 6, 2012

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

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to $1,000,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, debt securities, or units on the terms to be determined at the time of the offering. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. The information contained in this prospectus is accurate only as of the date on the front of this prospectus and our business, financial condition, results of operations and prospectus may have changed since that date. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

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PROSPECTUS SUMMARY

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

General Business of PennantPark Investment Corporation

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately $10 million to $50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies. In addition, we expect our debt investments to generally range in maturity from three to ten years.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. Turmoil in the credit markets over the last five years has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market debt instruments. These conditions have presented us with and may continue to offer attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. We have used, and expect to continue to use, our credit facility (Credit Facility) or any future credit facility, the Small Business Administration (SBA) debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

For the fiscal year ended September 30, 2011, we purchased $479.7 million of investments issued by 17 new and 11 existing portfolio companies with an overall weighted average yield of 13.7% on debt investments. This compares to purchasing $309.5 million of investments issued by 17 new and 12 existing portfolio companies with an overall weighted average yield of 14.9% on debt investments and purchasing $112.7 million of investments issued by 11 new and 8 existing portfolio companies with an overall weighted average yield of 14.5% on debt investments for the fiscal years ended September 30, 2010 and 2009, respectively.

For the fiscal year ended September 30, 2011, sales and repayments generated proceeds of $304.0 million. This compares to sales and repayments that generated proceeds for the fiscal years ended September 30, 2010 and 2009 of $145.2 and $28.0 million, respectively.

As of September 30, 2011, our portfolio totaled $827.5 million and consisted of $296.5 million of senior secured loans, $165.3 million of second lien secured debt, $309.3 million of subordinated debt and $56.4 million of preferred and common equity investments. Our portfolio consisted of 61% fixed-rate, 31% variable-rate with a London Interbank Offered Rate (LIBOR) or prime floor and 8% variable-rate investments. Our overall portfolio consisted of 48 companies with an average investment size of $17.2 million, a weighted average yield on debt investments of 13.3%, and was invested 36% in senior secured loans, 20% in second lien secured debt, 37% in subordinated debt and 7% in preferred and common equity investments.

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

Organization and Structure of PennantPark Investment Corporation

PennantPark Investment Corporation, a Maryland corporation organized on January 11, 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC, under the 1940 Act. In addition, for tax purposes we have elected to be treated, and intend to qualify annually, as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code).

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

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years, and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser s inception in 2007, it has raised about $1.2 billion in debt and equity capital and has invested over $1.5 billion in more than 150 companies with over 70 different financial sponsors through its managed funds.

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

Market Opportunity

We believe that the limited amount of capital available to the middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us. From our perspective, middle market companies have faced difficulty raising debt capital in both the capital markets and private markets. As a result of the difficulties in the credit markets and fewer sources of capital for middle market companies, we see opportunities for improved risk-adjusted returns. Furthermore, we believe with a large pool of uninvested private equity capital seeking debt capital to complete transactions and a substantial supply of refinancing opportunities, there is an opportunity to attain appealing risk-adjusted returns with debt investments. See Business for more information.

Competitive Advantages

We believe that we have competitive advantages over other capital providers in middle-market companies, such as a management team with an average of over 20 years of experience, a disciplined investment approach with strong value orientation, an ability to source and evaluate transactions through our Investment Adviser s research capability and established network and flexible transaction structuring that allows for us to invest across the capital structure coupled with a longer investment horizon with an attractive publicly traded model. See Business for more information.

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, collateralized loan obligation (CLO) 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 in middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available to middle-market companies 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. See Risk Factors Risks Relating to our Business and Structure We operate in a highly competitive market for investment opportunities for more information.

Leverage

We maintain a multi-currency $315.0 million senior secured Credit Facility which matures on June 25, 2012 and is secured by substantially all of our investment portfolio assets (excluding the assets of SBIC LP). As of September 30, 2011, we had $240.9 million outstanding on the Credit Facility with a weighted average interest rate at the time of 1.27% and had $74.1 million of unused borrowing capacity. 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 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for more information.

As of September 30, 2011, SBIC LP had drawn $150.0 million, with a weighted average interest rate of 3.70%, exclusive of 3.43% of upfront fees. SBA debentures offer competitive terms such as being non-recourse to us, a 10-year maturity, semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of SBIC LP and have a superior claim over such assets. See Regulation for more information.

Operating and Regulatory Structure

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

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

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

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

Use of Proceeds

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding obligations under our Credit Facility, to invest in new or existing portfolio companies, to capitalize a subsidiary or for other general corporate purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See Use of Proceeds for information regarding our outstanding borrowings as of September 30, 2011, the corresponding interest rate charged on such borrowings as of that date and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.

Dividends on Common Stock

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

Dividends on Preferred Stock

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

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each series. In general, the dividend periods for fixed rate preferred stock can range from weekly to quarterly and is subject to extension. The dividend rate could be variable and determined for each dividend period. See Risk Factors Risks Relating To Our Business and Structure for more information.

Dividend Reinvestment Plan

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

Plan of Distribution

We may offer, from time to time, up to $1 billion of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

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

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

Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on the NASDAQ Global Select Market under the symbol PNNT . Our phone number is (212) 905-1000, and our Internet website address is *www.pennantpark.com*. Information contained on our website is not incorporated by reference into this prospectus or any supplements to this prospectus, and you should not consider information contained on our website to be part of this prospectus or any supplements to this prospectus. We file periodic reports, proxy statements and other information with the SEC. You may read and copy the materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at *www.sec.gov* that contains material that we file with the SEC on the EDGAR Database.

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FEES AND EXPENSES

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

Stockholder transaction expenses (as a percentage of offering price)		
Sales load		%(1)
Offering expenses		%(2)
Total stockholder expenses		%
Estimated annual expenses (as a percentage of average net assets attributable to common shares)(3)		
Management fees	3.34	%(4)
Incentive fees payable under the Investment Management Agreement	3.20	%(5)
Interest payments on borrowed funds	1.50	%(6)
Other expenses	1.27	%(7)
Total estimated annual expenses	9.31	%(8)

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) Net assets attributable to common shares equals average net assets as of September 30, 2011.

(4) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets on September 30, 2011. See Certain Relationships and Transactions Investment Management Agreement for more information.

(5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the three months ended September 30, 2011, 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 of September 30, 2011, our unrealized capital gains did not exceed our cumulative realized and unrealized capital losses. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended September 30, 2011. For more detailed information about the incentive fee, please see Certain Relationships and Transactions Investment Management Agreement for more information.

(6) As of September 30, 2011, we had $74.1 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and $240.9 million in borrowings outstanding under our $315.0 million Credit Facility. As of September 30, 2011, SBIC LP had $150.0 million outstanding with a weighted average interest rate of 3.70%, exclusive of the 3.43% of upfront fees, (4.04% inclusive of the 3.43% upfront fee). We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our Credit Facility. After completing any such offering, we may continue to borrow under our Credit Facility to finance our investment objectives. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will depend on

prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See Risk Factors Risks Relating To Our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.

(7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the three months ended September 30, 2011 annualized for a full year. See the Consolidated Statement of Operations in our Consolidated Financial Statements.

(8) Total annual expenses as a percentage of net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total annual expenses percentage would be for a company that is not leveraged. We may borrow money to leverage our net assets and increase our total assets. The SEC requires that the total annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness) rather than total assets, which include assets that have been funded with borrowed money. For a presentation and calculation of total annual expenses based on average total assets, see page 31 of this prospectus.

Example

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a $1,000 hypothetical investment in common shares, assuming (1) a 4.75% sales load (underwriting discounts and commissions) and offering expenses totaling 0.28%, (2) total net annual expenses of 6.11% of average net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	$ 108	$ 221	$ 332	$ 599

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses may be greater or less than those assumed. The table above is provided to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Assuming a 5% annual return, the incentive fee under our Investment Management Agreement would not be earned or payable and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. The example assumes that all dividends and distributions are reinvested at net asset value. Under certain circumstances, reinvestment of dividends and distributions under our dividend reinvestment plan may occur at a price per share that differs from net asset value. See Distributions for more information.

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RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS AND STRUCTURE

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

The U.S. capital markets have experienced periods of disruption characterized by the freezing of available credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. During these periods of disruption, general economic conditions deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole, and financial services firms in particular, was reduced significantly. These conditions could and may reoccur for a prolonged period of time again or materially worsen in the future. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations.

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

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

The significant disruption in the capital markets experienced in the past had, and may in the future have, a negative effect on the valuations of our investments, and on the potential for liquidity events involving our investments. The debt capital that will be available to us may be at a higher cost or on less favorable terms and

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conditions than those currently in effect. If our financing costs increase and we have no increase in interest income, then our net investment income will decrease. A prolonged inability to raise capital may require us to reduce the volume of loans we originate and could have a material adverse impact on our business, financial condition or results of operations. This may also increase the probability that other structural risks negatively impact us. These situations may arise due to circumstances that we may be unable to control, such as a protracted disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or an operational problem that affects third parties or us, and could materially damage our business, financial condition and results of operations.

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

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

- A requirement to retain our status as a RIC;
- A requirement to maintain a minimum amount of shareholder s equity; and
- A requirement that our outstanding borrowings under the Credit Facility not exceed a certain percentage of the values of our portfolio companies.

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

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. Material net asset devaluation in connection with additional borrowings could result in an inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of shareholders equity. This could have a material adverse effect on our operations, as it would trigger mandatory pre-payment obligations under the terms of the Credit Facility and SBA debentures.

SBIC LP 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 SBIC LP. We will be partially dependent on SBIC LP for cash distributions to enable us to meet the RIC distribution requirements. SBIC LP may be limited by 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 SBIC LP to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver and if SBIC LP is unable to obtain a waiver, compliance with the SBA regulations may result in an entity-level tax on us.

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

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide determination of our board of directors, then we would carry our investments at fair value as determined in good faith by or under the direction of our board of directors. Decreases in the market value or fair values of our investments will be recorded as unrealized depreciation. Unrealized losses of any given portfolio company could be an indication of such company s inability in the future to meet its repayment obligations to us. If the fair value of our portfolio companies reflects future realized losses, this would ultimately result in reductions of our income available for distribution in future periods and could materially harm our results of operations and cause a material decline in the value of our publicly traded common stock.

We incur credit risk when we loan money or commit to loan money to a portfolio company.

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

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

Following periods of volatility in the market price of a company s securities, securities class action litigation has often been brought against that company.

If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management s attention and resources from our business and cause a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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assurance that PennantPark Investment Advisers will remain our Investment Adviser. The Investment Adviser has the right, under the Investment Management Agreement, to resign at any time upon 60 days written notice, whether we have found a replacement or not.

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

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

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with public and private funds, including other BDCs, commercial and investment banks, commercial financing companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, also invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. Many of our potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. We cannot offer any assurances that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

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

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

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility, which could have a material adverse effect on our business, financial condition and results of operations.

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

We have operated and continue to operate so as to qualify as a RIC under Subchapter M of the Code. If we meet source of income, quarterly asset diversification and distribution requirements, we generally will not be subject to corporate-level income taxation on income we timely distribute, or deem to distribute, to our stockholders as dividends. We would cease to qualify for such tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting the requirement to make distributions to our stockholders because in certain cases we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for debt service as well as reduce and/or affect the character and amount of our distributions to our stockholders. Even if we qualify as a RIC, we generally will be subject to a corporate-level income tax on the income or gains we do not distribute. If we do not distribute an amount at least equal to the sum of 98% of our ordinary income (during the calendar year) plus 98.2% of our net capital gain income (during each 12 month period ending on October 31), we generally will be required to pay an excise tax on amounts carried over and distributed to shareholders in the next year equal to 4% of the undistributed amount.

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

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

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

In some cases we may recognize income before or without receiving cash representing such income. As a result, we may have difficulty meeting the tax requirement to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, to obtain RIC tax benefits. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements, which could have a material adverse effect on our business, financial condition and results of operations. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax benefits and thus be subject to corporate level income tax.

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

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

We will be partially dependent on SBIC LP for cash distributions to enable us to meet the RIC distribution requirements. SBIC LP 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 SBIC LP to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver and if SBIC LP is unable to obtain a waiver, compliance with the SBA regulations may result in an entity-level tax on us.

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

Our Credit Facility expires in June 2012. We utilize a revolving five-year Credit Facility to make investments in our portfolio companies. The life of our investments typically exceeds the duration of our indebtedness under our Credit Facility. This means that we will have to extend the maturity of our Credit Facility or refinance our indebtedness under our Credit Facility in order to avoid selling investments at a time when such sales may be at prices that are disadvantageous to us, which could materially damage our business. In addition, under current market conditions, we believe it may be unlikely that we could renew or refinance our Credit Facility on terms as favorable as those in our existing Credit Facility. In particular, market interest rates have increased for borrowers such as us since we entered into our Credit Facility in June 2007. If we fail to extend or refinance the indebtedness outstanding under our Credit Facility by the time it becomes due and payable, the administrative agent of the Credit Facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the Credit Facility, subject to certain restrictions, any of which could have a material adverse effect on our business, financial condition and results of operations. The illiquidity of our investments may make it difficult for us to sell such investments. If we are required to sell our investments on short-term notice, we may not receive the value that we have recorded for such investments, and this could materially affect our results of operations.

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

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

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

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price for our common stockholders or otherwise be in your best interest. Our senior securities may include conversion features that cause them to bear risks more closely associated with an investment in our common stock.

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

Securitization. In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. Even though we expect the pool of loans that we contribute to any such securitization vehicle to be rated below investment grade, because the securitization vehicle s portfolio of loans would secure all of the debt issued by such vehicle, a portion of such debt may be rated investment grade, subject in each case to market conditions that may require such portion of the debt to be over collateralized and various other restrictions. If applicable accounting pronouncements or SEC staff guidance requires us to consolidate the securitization vehicle s financial statements with our financial statements any debt issued by it would be generally treated as if it were issued by us for purposes of the asset coverage test applicable to us. In such case, we would expect to retain all or a portion of the equity and/or subordinated notes in the securitization vehicle. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We may hold subordinated debentures in any such securitization vehicle and, if so, we would not consider such securities to be senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses.

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

SBIC LP is licensed by the SBA and is subject to SBA regulations.

In July 2010, our wholly-owned subsidiary, SBIC LP, received a license 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 SBIC LP 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 SBIC LP fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit SBIC LP s use of debentures, declare outstanding debentures immediately due and payable, and/or limit it from making new investments. In addition, the SBA could revoke or suspend SBIC LP s 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 SBIC LP is our wholly-owned subsidiary.

SBA-guaranteed debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of $150 million, which is up to twice its regulatory capital.

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

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

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

Additionally, our subsidiary, SBIC LP, has received borrowed funds from the SBA through its debenture program. In connection with the filing of its SBA license application, PennantPark Investment received exemptive relief, as of June 1, 2011, from the SEC to permit us to exclude the debt of SBIC LP from our consolidated asset coverage ratio. 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.

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

We have indebtedness outstanding pursuant to our Credit Facility and expect in the future to borrow additional amounts under our Credit Facility and, subject to market availability, to increase the size of our Credit Facility. Lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or preferred stockholders, if any, and we have granted a security interest in our assets, excluding those of SBIC LP, in connection with our Credit Facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. Additionally, the SBA, as a lender and an administrative agent, has a superior claim over the assets of SBIC LP in relation to our lender. In addition, borrowings and SBA debentures, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not utilized leverage. Similarly, any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common or preferred stock. Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures.

As of September 30, 2011, we had outstanding borrowings of $240.9 million under our Credit Facility and $150.0 million outstanding under the SBA debentures. Our consolidated debt outstanding was $390.9 million and had a weighted average annual interest rate at the time of 2.20% exclusive of the fee on undrawn commitment of 0.20% and 3.43% upfront fees on the SBA debentures. Accordingly, to cover the annual interest on our borrowings outstanding at September 30, 2011, at the then current rate, we would have to receive an annual yield of at least 1.01%. This example is for illustrative purposes only, and actual interest rates on our Credit Facility borrowings and SBA debentures are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee payable to our Investment Adviser, will be borne by our common stockholders.

The following table is designed to illustrate the effect on return to a holder of our common stock of the leverage created by our use of borrowing at September 30, 2011 of 42% of total assets (including such borrowed funds), at a weighted average rate at the time of 2.20%, and assuming hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level and weighted average rate of leverage. The amount of leverage that we use will vary from time to time. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses)(1)	(10.0)%	(5.0)%		5.0%	10.0%
Corresponding return to common stockholders(2)	(21.9)%	(11.9)%	(1.9)%	8.2%	18.2%

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.
(2) In order to compute the corresponding return to common stockholders, the assumed return on portfolio is multiplied by the total value of our assets at the beginning of the period to obtain an assumed return to us. From this amount, all interest expense expected to be accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of the beginning of the period to determine the corresponding return to common stockholders.

We are exposed to risks associated with changes in interest rates that may affect our cost of capital and net investment income.

Since we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In the period from June 25, 2007, when we executed our Credit Facility, through September 30, 2011, the applicable LIBOR rate has decreased from 5.3% to 0.2%. In periods of rising interest rates, our cost of funds will increase, which could reduce our net investment income. We may use interest rate risk management techniques, such as total return swaps and interest rate swaps, in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions, and we will initially have to purchase or develop such expertise. See Management s Discussion and Analysis of Financial Conditions and Results of Operations Quantitative and Qualitative Disclosures about Market Risk for more information.

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

General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates and also could increase our interest expense, thereby decreasing our net income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

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

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

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

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

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

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities, convertible

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

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities, convertible debt or units. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities, convertible debt or units may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

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

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

We may in the future issue securities for which there is no public market and for which we expect no public market to develop.

In order to raise additional capital, we may issue debt or other securities registered on this registration statement for which no public market exists, and for which no public market is expected to develop. If we issue shares of our common stock as a component of a unit security, we would expect the common stock to separate from the other securities in such unit after a period of time or upon occurrence of an event and to trade publicly on the NASDAQ, which may cause volatility in our publicly traded common stock. To the extent we issue securities for which no public market exists and for which no public market develops, a purchaser of such securities may not be able to liquidate the investment without considerable delay, if at all. If a market should develop for our debt and other securities, the price may be highly volatile, and our debt and other securities may lose value.

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

The professionals of our Investment Adviser and Administrator may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by affiliates of PennantPark Investment that currently exist or may be formed in the future. The Investment Adviser and Administrator may be engaged by such funds at any time and without the prior approval of our stockholders or our board of directors. Our board of directors monitors any potential conflict that may arise upon such a development. Accordingly, if this occurs, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. Currently, the executive officers and directors, as well as the current senior investment professionals of the Investment Adviser, serve as officers and directors of our controlled affiliate and of PennantPark Floating Rate Capital Ltd., another BDC. In addition, we note that any affiliated investment vehicle currently formed or formed in the future and managed by the Investment Adviser or its affiliates may have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities between us and such other entities. Although the Investment Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by the Investment Adviser or an investment manager affiliated with the Investment Adviser. In any such case, when the Investment Adviser identifies an investment, it will be forced to choose which investment fund should make the investment. We may co-invest on a concurrent basis with our controlled affiliate, and any other affiliates that the Investment Adviser forms in the future, subject to compliance with applicable regulations and regulatory guidance and our allocation procedures. In certain circumstances, negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

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

We have entered into the License Agreement with PennantPark Investment Advisers, pursuant to which our Investment Adviser has agreed to grant us a royalty-free non-exclusive license to use the name PennantPark. The License Agreement will expire (i) upon expiration or termination of the Investment Management Agreement, (ii) if the Investment Adviser ceases to serve as our investment adviser, (iii) by either party upon sixty days written notice or (iv) by the Investment Adviser at any time in the event we assign or attempt to assign or sublicense the License Agreement or any of our rights or duties thereunder without the prior written consent of the Investment Adviser.

Other than with respect to this limited license, we have no legal right to the PennantPark name. In addition, we pay PennantPark Investment Administration, an affiliate of the Investment Adviser, our allocable portion of overhead and other expenses incurred by PennantPark Investment Administration in performing its obligations under our Administration Agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs. These arrangements may create conflicts of interest that our board of directors must monitor.

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

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

- the time remaining to the maturity of these debt securities;

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- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption, repayment or convertible features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

There also may be a limited number of buyers for our debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities. Our debt securities may include convertible features that cause them to more closely bear risks associated with an investment in our common stock.

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

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

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

If we issue debt securities that are redeemable at our option, we may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if the debt securities are subject to mandatory redemption, we may be required to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In this circumstance, a holder of our debt securities may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the debt securities being redeemed.

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

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

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

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. However, as a result of our

irrevocable election to apply the fair value option to our Credit Facility future decreases of fair value of our debt will have a corresponding increase to our net asset value. Further increases of fair value of our debt will have the opposite effect. This will tend to mitigate volatility in our earnings and net asset value. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

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

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

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

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

RISKS RELATING TO THE ILLIQUID NATURE OF OUR PORTFOLIO ASSETS

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

All of our investments are recorded using broker or dealer quotes, or at fair value as determined in good faith by our board of directors. We expect that primarily most, if not all, of our investments (other than cash and cash equivalents) and the fair value of our Credit Facility will be classified as Level 3 under Accounting Standards Codification (ASC) 820, Fair Value Measurements. This means that our portfolio valuations will be based on unobservable inputs and our own assumptions about how market participants would price the asset or liability. We expect that inputs into the determination of fair value of our portfolio investments and Credit Facility borrowings will require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer materially reduces the reliability of such information.

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

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

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At each quarter-end, many of our portfolio assets are recorded at fair value as determined in good faith by our board of directors. As we invest a greater percentage of our total assets in private investments, more of our portfolio assets will be recorded at fair value as determined in good faith by our board of directors. Our board of directors uses the services of one or more nationally recognized independent valuation firms to aid it in determining the fair value of these securities. The factors that may be considered in fair value pricing of our investments include the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Because valuations may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the value received in an actual transaction. Additionally, valuations of private securities and private companies are inherently uncertain. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

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

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

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

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

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

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

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We rely in part on our over-the-counter securities to provide us with adequate liquidity, but even these securities did face liquidity constraints under recent market conditions.

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

RISKS RELATED TO OUR INVESTMENTS

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

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

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

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

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

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

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

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- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors actions and changing market conditions, as well as general economic downturns;
- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our Investment Adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and
- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

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

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

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

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on investments in other investment companies. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market s assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

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

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

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

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

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

- increase or maintain in whole or in part our equity ownership percentage;
- exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or
- attempt to preserve or enhance the value of our investment.

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

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

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

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

We have invested and intend to continue to invest primarily in privately held companies. Generally, little public information exists about these companies, and we will rely on the ability of our Investment Adviser s investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If they are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose value on our investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could have a materially adverse affect our investment returns as compared to companies investing primarily in the securities of public companies.

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

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

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

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

The part of our incentive fee payable to PennantPark Investment Advisers that relates to net investment income is computed and paid on income that has been accrued but that may not have been received in cash. PennantPark Investment Advisers is not obligated to reimburse us for any such incentive fees even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued. As a result, there is a risk that we will pay incentive fees with respect to income that we never receive in cash.

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

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

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

Our Investment Adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our Consolidated Statement of Operations for that quarter. Thus, we may be required to pay our Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

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

Our investment strategy contemplates potential investments in securities of companies located outside of the United States, to the extent permitted under the 1940 Act. Investing in companies located outside of the United States may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

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

The effect of global climate change may impact the operations of our portfolio companies.

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A

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decrease in energy use due to weather changes may affect some of our portfolio companies financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

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

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

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

RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK

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

We may again obtain the approval of our stockholders to issue shares of our common stock at prices below the then current net asset value per share of our common stock. Such approval has allowed, and may again allow, us to access the capital markets in a way that we typically are unable to do as a result of restrictions that, absent stockholder approval, apply to BDCs under the 1940 Act.

Any sale or other issuance of shares of our common stock at a price below net asset value per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our net asset value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our net asset value per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our net asset value per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering.

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

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

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

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

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

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

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

Shares of BDCs 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 net asset value, or NAV. Our shares traded on the NASDAQ Global Select Market at $8.92 and $10.61 as of September 30, 2011 and 2010, respectively. Our NAV was $10.13 and $10.69 as of September 30, 2011 and 2010, respectively. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

The market price of our common stock may fluctuate significantly.

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

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs, BDCs or SBICs;
- any loss of BDC, RIC or SBIC status;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;

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- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the inability of our Investment Adviser to employ additional experienced investment professionals or the departure of any of the Investment Adviser s key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors;
- conversion features of subscription rights, warrants or convertible debt; and
- loss of a major funding source.

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

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

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

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

- direct obligations of, or obligations guaranteed as to principal and interest by, the U.S. government, which mature within 15 months from the date of the investment;
- repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government);
- certificates of deposit with a maturity of one year or less, issued by a federally insured institution; or
- a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less.

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

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

You may have current tax liabilities on distributions you reinvest in our common stock.

Under the dividend reinvestment plan, if you own shares of our common stock registered in your own name, you will have all cash distributions automatically reinvested in additional shares of our common stock unless you opt out of the dividend reinvestment plan by delivering a written notice to the plan administrator prior to the record date of the next dividend or distribution. If you have not opted out of the dividend reinvestment plan, you will be deemed to have received, and for federal income tax purposes will be taxed on, the amount reinvested in our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, you may have to use funds from other sources to pay your federal income tax liability on the value of the common stock received. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Distributions.

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

If we distribute our common stock as a dividend of our taxable income, a shareholder could receive a portion of the dividends declared and distributed by us in shares of our common stock with the remaining amount in cash. A shareholder will be considered to have recognized dividend income equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. We have not elected to distribute stock as a dividend but reserve the right to do so in the future.

We incur significant costs as a result of being a publicly traded company.

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), and other rules implemented by the SEC and the listing standards of the NASDAQ.

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

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

In addition, our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our common stock by any person. If we amend our bylaws to repeal the exemption from such act, it may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such an offer. Our bylaws require us to consult with the SEC staff before we repeal such exemption. Also, our charter provides for classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorizes our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue.

These anti-takeover provisions may inhibit a change of control in circumstances that could give our stockholders the opportunity to realize a premium over the market price for our common stock.

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FORWARD-LOOKING STATEMENTS

This prospectus contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiaries regarding future events or our future performance or financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. The forward-looking statements contained in this prospectus involve risks and uncertainties, 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 our Investment Adviser to locate suitable investments for us and to monitor and administer our investments.

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

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved.

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

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act of 1933, as amended (the Securities Act), and Section 21E(b)(2)(B) of the Exchange Act the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, do not apply to statements made in connection with any offering of securities pursuant to this prospectus or in periodic reports we file under the Exchange Act.

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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 form and capitalize a subsidiary or for other general corporate purposes. Any supplements to this prospectus relating to an offering may more fully identify the use of the proceeds from such offering.

As of September 30, 2011, we had $74.1 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and $240.9 million in borrowings outstanding under our $315.0 million Credit Facility. Borrowings under our Credit Facility bear interest at an annual rate equal to LIBOR plus 100 basis points per annum. At September 30, 2011, the interest rate at that time was 1.27%. The Credit Facility is a revolving facility with a stated maturity date of June 25, 2012 and is secured by substantially all of the assets in our investment portfolio, excluding assets of SBIC LP. Amounts repaid under our Credit Facility remain available for future borrowings. See Management s Discussion and Analysis of Financial Condition and Results of Operations for more information.

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

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SELECTED FINANCIAL DATA

We have derived the financial information below from our audited and unaudited financial data and, in the opinion of management, such information reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such periods. The Consolidated Statement of Operations data, Per share data and Consolidated Statement of Assets and Liabilities data for the fiscal years ended September 30, 2011, 2010, 2009, 2008 and for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our Consolidated Financial Statements which have been audited by KPMG LLP, our independent registered public accounting firm. This selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations .

(Dollar amounts in thousands, except per share data)	Year ended September 30, 2011	Year ended September 30, 2010	Year ended September 30, 2009	Year ended September 30, 2008	For the period from January 11, 2007 (inception) through September 30, 2007
Consolidated Statement of Operations data:					
Total investment income	$ 91,738	$ 60,140	$ 45,119	$ 39,811	$ 13,107
Net expenses before base management fee waiver	39,093	28,065	22,400	21,676	6,444
Net expenses after base management fee waiver[(1)]	39,093	28,065	22,400	21,255	5,803
Net investment income	52,645	32,075	22,719	18,556	7,304
Net realized and unrealized (loss) gain	(42,382)	(15,539)	13,083	(59,259)	(24,004)
Net increase/(decrease) in net assets resulting from operations	10,263	16,535	35,802	(40,703)	(16,699)
Per share data:					
Net asset value (at period end)	10.13	10.69	11.85	10.00	12.83
Net investment income[(2)]	1.25	1.09	1.08	0.88	0.35
Net realized and unrealized (loss) gain[(2)]	(1.01)	(0.53)	0.62	(2.81)	(1.15)
Net increase/(decrease) in net assets resulting from operations[(2)]	0.24	0.56	1.70	(1.93)	(0.80)
Distributions declared[(2),(6)]	(1.10)	(1.09)	(0.96)	(0.90)	(0.36)
Consolidated Statement of Assets and Liabilities data (at period end):					
Total assets	928,738	711,494	512,381	419,811	555,008
Total investment portfolio	827,549	664,724	469,760	372,148	291,017
Borrowings outstanding	388,792[(5)]	233,641[(5)]	175,475[(5)]	202,000	10,000
Payable for investments purchased and unfunded investments	55,705	74,988	25,821		273,334
Total net asset value	462,657	386,575	300,580	210,728	270,393
Other data:					
Total return[(3)]	(7.37)%	44.79%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end)[(4)]	48	43	42	37	38
Yield on debt portfolio (at period end)[(4)]	13.3%	12.7%	11.4%	11.1%	10.1%

(1) The base management fee waiver was in effect from inception through March 31, 2008.

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

(3) Based on the change in market price per share during the periods and 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 in the case of our Credit Facility.

(6) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under U.S. generally accepted accounting principles.

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Selected Quarterly Data (Unaudited)

(dollar amounts in thousands, except per share data)

	2011			
	Q4	Q3	Q2	Q1
Total investment income	$ 26,139	$ 22,908	$ 22,712	$ 19,979
Net investment income	$ 15,095	$ 13,220	$ 13,159	$ 11,171
Net realized and unrealized gain	$ (46,260)	$ (10,901)	$ 428	$ 14,351
Net increase in net assets resulting from operations	$ (31,165)	$ 2,319	$ 13,587	$ 25,522
Earnings per common share	$ (0.68)	$ 0.29	$ 0.32	$ 0.31
Net asset value per share at the end of the quarter	$ 10.13	$ 11.08	$ 11.30	$ 11.14
Market value per share at the end of the quarter	$ 8.92	$ 11.21	$ 11.92	$ 12.25

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

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

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

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

* From January 11, 2007 (inception of operations) through March 31, 2007.

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

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

Overview

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. We seeks to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately $10 to $50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion. We may also invest in public middle-market U.S. companies that are thinly traded or have a small-market capitalization. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies. In addition, we expect our debt investments to generally range in maturity from three to ten years.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. Turmoil in the credit markets over the last five years has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market debt instruments. These conditions have presented us with and may continue to offer attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. We have used, and expect to continue to use, our Credit Facility, the SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives. In the future, we may also securitize a portion of our investments to raise investment capital.

Organization and Structure of PennantPark Investment Corporation

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

Our wholly-owned subsidiary, PennantPark SBIC LP, was organized as a Delaware limited partnership on May 7, 2010 and received a license from the SBA to operate as an SBIC under Section 301(c) of the 1958 Act in July 2010. SBIC LP s objective is substantially similar to PennantPark Investment, generally co-investing in SBA eligible businesses that meet the investment criteria of PennantPark Investment.

Our investment activities are managed by PennantPark Investment Advisers. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based

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on our average adjusted gross total assets as well as an incentive fee based on our investment performance. PennantPark Investment, through the Investment Adviser, provides similar services to SBIC LP under its investment management agreement. The SBIC LP investment management agreement does not affect the management and incentive fees on a consolidated basis. We have also entered into an Administration Agreement with PennantPark Investment Administration. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs. We, through the Administrator, provide similar services to SBIC LP under its administration agreement with us. Our board of directors, a majority of whom are independent of us and PennantPark Investment Advisers, supervises our activities.

Revenues

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

Expenses

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complementary businesses;
- expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;

federal, state and local taxes;

independent directors   fees and expenses;

brokerage commissions;

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

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

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

costs associated with our reporting and compliance obligations under the 1940 Act, the 1958 Act and applicable federal and state securities laws; and

all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs.

During periods of asset growth, we expect our general and administrative expenses to be relatively stable or decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive.

The SEC requires that estimated Total Annual Expenses be calculated as a percentage of net assets in the chart on page 5 of this prospectus rather than as a percentage of total assets. Total assets include assets that have been funded with borrowed money (leverage). For reference, the chart below illustrates our estimated Total Annual Expenses as a percentage of total assets:

Estimated Annual Expenses (as a Percentage of Average Total Assets)

Base management fees	2.00%(1)
Incentive fees payable under the Investment Management Agreement	1.92%(2)
Interest payments on borrowed funds	0.90%(3)
Other expenses	0.76%(4)
Total annual expenses	5.58%(5)

(1) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets. See Certain Relationships and Transactions Investment Management Agreement for more information.

(2) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the fiscal year ended September 30, 2011. 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 of September 30, 2011, our unrealized capital gains did not exceed our cumulative realized and unrealized capital losses. 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 fiscal year ended September 30, 2011. For more detailed information about the incentive fee, please see Certain Relationships and Transactions Investment Management Agreement in this prospectus.

(3) As of September 30, 2011, we had $74.1 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and $240.9 million in borrowings outstanding under our $315.0 million Credit Facility. As of September 30, 2011, SBIC LP had SBA debentures in the amount of $150.0 million outstanding with a weighted average interest rate of 3.70%, exclusive of the 3.43% of

upfront fees (4.04% inclusive of the the 3.43% of upfront fees). We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our Credit Facility. After completing any such offering, we may continue to borrow under our Credit Facility to finance our investment objectives under the terms of our Credit Facility. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See Risk Factors Risks Relating To Our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.

(4) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the fiscal year ended September 30, 2011. See the Consolidated Statement of Operations in our Consolidated Financial Statements.

(5) The table above is intended to assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear as a percentage of our average gross assets as of September 30, 2011. However, we caution you that these percentages are estimates and may vary with changes in the market value of our investments, the amount of equity capital raised and used to invest in portfolio companies and changes in the level of expenses as a percentage of our gross assets. We may borrow money to leverage our net assets and increase our total assets and such leverage will affect both the total annual expenses and gross assets used in deriving the ratios in the above table. Thus, any differences in the estimated expenses and the corresponding level of average asset balances will affect the estimated percentages and those differences could be material.

Portfolio and Investment Activity

For the fiscal year ended September 30, 2011, we purchased $479.7 million of investments issued by 17 new and 11 existing portfolio companies with an overall weighted average yield of 13.7% on debt investments. This compares to purchasing $309.5 million of investments issued by 17 new and 12 existing portfolio companies with an overall weighted average yield of 14.9% on debt investments and purchasing $112.7 million of investments issued by 11 new and 8 existing portfolio companies with an overall weighted average yield of 14.5% on debt investments for the fiscal years ended September 30, 2010 and 2009, respectively.

For the fiscal year ended September 30, 2011 sales and repayments generated proceeds of $304.0 million. This compares to sales and repayments that generated proceeds for the fiscal years ended September 30, 2010 and 2009 of $145.2 and $28.0 million, respectively.

As of September 30, 2011, our portfolio totaled $827.5 million and consisted of $296.5 million of senior secured loans, $165.3 million of second lien secured debt, $309.3 million of subordinated debt and $56.4 million of preferred and common equity investments. Our portfolio consisted of 61% fixed-rate, 31% variable-rate with a LIBOR or prime floor and 8% variable-rate investments. Our overall portfolio consisted of 48 companies with an average investment size of $17.2 million, a weighted average yield on debt investments of 13.3%, and was invested 36% in senior secured loans, 20% in second lien secured debt, 37% in subordinated debt and 7% in preferred and common equity investments.

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

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Critical Accounting Policies

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

Valuation of Portfolio Investments

Our investments generally consist of illiquid securities including debt and equity investments. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If 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. Investments, of sufficient credit quality, purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value.

We expect that there may not be readily available market values for many of our investments which are or will be in our portfolio. We value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy, described in this prospectus, and a consistently applied valuation process. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may differ from our valuation and the differences could be material.

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

(1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the senior investment professionals of the Investment Adviser responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;

(3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firm reviews management s preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

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

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(5) Our 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.

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

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

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

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

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

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may differ from our valuation and those differences may be material.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data are available, such data may be the result of consensus pricing information or broker quotes which may 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 from brokers/dealers accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence was available. Corroborating evidence that would result in classifying these non-binding broker/dealer bids as a Level 2 asset includes observable market-based transactions for the same or similar assets or other relevant observable market based inputs that may be used in pricing an asset.

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit value for an investment. Ongoing reviews by the 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, performance multiples and yields, among other factors. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy.

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

In addition to using the above inputs in cash equivalents, investments and our Credit Facility valuations, we employ the valuation policy approved by its board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which its investments are trading, in determining fair value.

The carrying value of our selected financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of a company s choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of our Credit Facility are recorded in Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities including the SBA debentures. For the years ended September 30, 2011 and 2010, our Credit Facility had a new change in unrealized appreciation of $11.9 million and $35.7 million, respectively. As of September 30, 2011 and 2010, net unrealized depreciation on our Credit Facility totaled $2.1 million and $14.0 million, respectively. We use nationally recognized independent valuation services to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments.

Revenue Recognition

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

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

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

Payment-in-Kind Interest or PIK

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

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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. To maintain RIC tax benefits, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements (as described below). We also must annually distribute dividends of at least 90% the sum of our ordinary income and realized net short-term capital gains, if any, our of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we have retained and may continue to retain such net capital gains or ordinary income to provide us with additional liquidity.

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 Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the fiscal years ended September 30, 2011, 2010 and 2009.

Investment Income

Investment income for the fiscal year ended September 30, 2011 was $91.7 million and was primarily attributable to $37.1 million from senior secured loan investments, $15.2 million from second lien secured debt investments, and $38.8 million from subordinated debt investments. The increase in investment income over the prior year was due to growth of our portfolio which was also driven by investment of the proceeds from our equity offering and rotation out of lower yielding assets.

Investment income for the fiscal year ended September 30, 2010 was $60.1 million and was attributable to $19.5 million from senior secured loan investments, $14.1 million from second lien secured debt investments, and $26.5 million from subordinated debt investments. The increase in investment income over the prior year was due to growth in our overall portfolio which was also driven by investment of the proceeds from our equity offering and rotation out of lower yielding assets.

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

Expenses

Expenses for the fiscal year ended September 30, 2011 totaled $39.1 million. Base management fee for the same period totaled $14.9 million, performance-based incentive fee totaled $13.2 million, Credit Facility and SBA debentures related expenses totaled $5.3 million, general and administrative expenses totaled $5.5 million, and an excise tax of $0.2 million was incurred. The increase in expenses over the prior year was primarily due to the growth of our portfolio as well as increased borrowing costs.

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

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

Net Investment Income

Net investment income totaled $52.6 million or $1.25 per share, $32.1 million or $1.09 per share and $22.7 million or $1.08 per share for the fiscal years ended September 30, 2011, 2010 and 2009, respectively. The increase in per share net investment income from 2010 to 2011 was the result of the growth of our portfolio.

Net Realized Gains or Losses

Sales and repayments of long-term investments for the fiscal years ended September 30, 2011, 2010 and 2009 totaled $304.0 million, $145.2 million and $28.0 million, respectively, and net realized gains (losses) totaled $16.3 million, $(15.4) million and $(39.2) million, respectively. Net realized gains increased over the prior year due to sales and repayments of our investments.

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

Net change in unrealized (depreciation) appreciation on investments totaled $(46.8) million, $35.5 million and $44.5 million for the fiscal years ended September 30, 2011, 2010 and 2009, respectively. Net change in unrealized (appreciation) deprecation on our Credit Facility totaled $(11.9) million, $(35.7) million and $7.8 million for the same periods, respectively. Net change in unrealized depreciation on investments increased over the prior year due to the overall deterioration in the leveraged finance markets. Net change in unrealized (appreciation) on our Credit Facility over the prior year is the result of its approaching maturity.

Net Increase in Net Assets Resulting From Operations

Net increase in net assets resulting from operations totaled $10.3 million or $0.24 per share, $16.5 million or $0.56 per share, and $35.8 million or $1.70 per share for the fiscal years ended September 30, 2011, 2010, and 2009, respectively. The net increase in net assets from operations was lower than the prior year due to the continued growth in net investment income as a result of growing our portfolio and realized gains offset by the appreciation in the value of our credit facility as it approaches maturity and depreciation on our investments.

Liquidity and Capital Resources

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

We may raise additional equity or debt capital through both registered offerings off a shelf registration and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA through our SBIC LP, among other sources. Any future additional debt capital we incur, to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility. We continuously monitor conditions in the credit markets and seek opportunities to enhance our debt structure as our Credit Facility matures in June 2012. We are in discussions with lenders regarding a new credit facility to replace our existing facility, which matures in June 2012. Furthermore, our Credit Facility availability depends on various covenants and restrictions as discussed below. The primary uses of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our shareholders and for other general corporate purposes.

On June 25, 2007, PennantPark Investment entered into the Credit Facility, with various lenders and SunTrust Bank, as administrative agent for the lenders. As of September 30, 2011 and 2010, we had outstanding borrowings of $240.9 million and $233.1 million (including a $5.2 million temporary draw) under the Credit Facility, with a weighted average interest rate of 1.27% and 1.34%, exclusive of the fee on undrawn commitment of 0.20%, and $74.1 million and $66.9 million of unused borrowing capacity, respectively.

Under our Credit Facility, the lenders agreed to extend us credit in an initial aggregate principal or face amount not exceeding $315.0 million outstanding at any one time. The Credit Facility is a five-year revolving facility (with a stated maturity date of June 25, 2012) and is secured by substantially all of our investment portfolio assets, except for those assets of SBIC LP. Pricing of borrowings under our Credit Facility is set at 100 basis points over LIBOR.

Our credit facility contains affirmative and restrictive covenants, including but not limited to maintenance of a minimum shareholders equity of the greater of (i) 40% of the total assets of PennantPark Investment and its subsidiaries as of the last day of any fiscal quarter and (ii) the sum of (A) $120,000,000 plus (B) 25% of the net proceeds from the sale of equity interests in PennantPark Investment and its subsidiaries after the closing date of the Credit Facility and maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness, in each case of PennantPark Investment, of not less than 2.0:1.0 (excluding any exemptive relief granted by the SEC with respect to the indebtedness of any SBIC subsidiary). In addition to the asset coverage ratio described in the preceding sentence, borrowings under our Credit Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that will apply different advance rates to different types of assets in PennantPark Investment s portfolio. As of September 30, 2011, we were in compliance with the terms of our Credit Facility.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that its asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing. As of September 30, 2011, 2010, 2009, 2008 and 2007 our asset coverage for borrowed amounts was 294%, 266%, 271%, 204% and 2,804%. As of September 30, 2011, we have excluded the SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief.

For the fiscal year ended September 30, 2011, we sold 9.2 million shares of our common stock, inclusive of the underwriters over-allotment options, resulting in net proceeds of $108.3 million. This compares to selling 10.8 million shares of common stock, inclusive of the underwriters over-allotment option, resulting in net proceeds of $101.7 million, for the fiscal year ended September 30, 2010. 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 shareholder approval and 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 stockholder s interest in our common stock and a reduction of our net asset value per share.

SBIC LP is able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including, but not limited to, an examination by the SBA. As of September 30, 2011, we have contributed $75.0 million to SBIC LP and had

SBA debentures outstanding of $150.0 million. SBA debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of $150 million, which is up to twice its potential regulatory capital.

As of September 30, 2011, $150.0 million in debt commitments were fully drawn with a weighted average interest rate of 3.70% exclusive of the 3.43% in upfront fees (4.04% inclusive of the 3.43% upfront fees). The SBA debenture s upfront fees of 3.43% consists of a commitment fee of 1% and an issuance at a 2.43% discount to face. Both fees are amortized over the life of the loans.

		As of September 30, 2011		As of September 30, 2010	
Issuance Dates	Maturity	All-in Coupon Rate(1)	Principal Balance	All-in Coupon Rate(1)	Principal Balance
Fixed SBA Debentures					
September 22, 2010	September 1, 2020	3.50%	$ 500,000	3.50%	$ 500,000
March 29, 2011	March 1, 2021	4.46%	44,500,000		
September 21, 2011	September 1, 2021	3.38%	105,000,000		
		3.70%	150,000,000	3.50%	500,000
Interim SBA Debentures				0.84%	14,000,000
Total SBA Debentures		3.70%	$ 150,000,000	0.93%	$ 14,500,000
SBA Commitment			$ 150,000,000		$ 33,500,000
Available Undrawn SBA Commitment			$		$ 19,000,000

(1) Excludes 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, SBIC LP is subject to regulatory requirements including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries, requiring capitalization thresholds that limit distributions to us, and is subject to periodic audits and examinations. As of September 30, 2011, SBIC LP was in compliance with its regulatory requirements.

On June 1, 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage requirement to exclude the SBA debentures from the calculation. Accordingly, 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 net asset value may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our Credit Facility and SBA debentures depend on many factors, some of which are beyond our control. Material net asset devaluation could have a material adverse effect on our operations and could require us to reduce our borrowings under our Credit Facility and SBA debentures in order to comply with certain covenants, including the ratio of total assets to total indebtedness.

At September 30, 2011, we had approximately $49 million of assets bearing a coupon of 9% or lower. We will look to rotate these assets into new higher yielding investments over time.

Our operating activities used cash of $137.8 million for the fiscal year ended September 30, 2011, and our financing activities provided net cash proceeds of $207.6 million for the same period. Our operating activities used cash primarily for investing that was provided primarily from proceeds from our follow-on public offering of common stock and draws under our Credit Facility and SBA debentures.

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

Our operating activities used cash of $42.4 million for the fiscal year ended September 30, 2009, and our financing activities provided net cash proceeds of $35.4 million for the same period, primarily from borrowings under our Credit Facility. Our operating activities used cash primarily for investing, that was provided from proceeds from draws under the Credit Facility.

Contractual Obligations

A summary of our significant contractual payment obligations including borrowings under our Credit Facility and other contractual obligations are as follows:

	Payments due by period (in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior secured revolving Credit Facility(1)	$ 240.9	$ 240.9	$	$	$
SBA debentures	150.0				150.0
Subtotal debt outstanding(2)	390.9	240.9			150.0
Unfunded investments(3)	37.1	18.5	18.6		
Total contractual obligations	$ 428.0	$ 259.4	$ 18.6	$	$ 150.0

(1) As of September 30, 2011, we had $74.1 million of unused borrowing capacity under our Credit Facility, subject to various restrictions and covenants.

(2) The weighted average interest rate on the total debt outstanding as of September 30, 2011 was 2.20% exclusive of the fee on undrawn commitment of 0.20% on the Credit Facility and 3.43% of upfront fees on the SBA debentures.

(3) Unfunded debt investments described in the Consolidated Statements of Assets and Liabilities represent unfunded delayed draws on investments in first lien secured debt and subordinated debt investments.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was renewed in February 2011, PennantPark Investment Advisers serves as our investment adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, provides similar services to SBIC LP under its investment management agreement with SBIC LP. SBIC LP s investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period is equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance. See Note 3 to our Consolidated Financial Statements.

Under our Administration Agreement, which was renewed in February 2011, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under an administration agreement with SBIC LP, which is intended to have no effect on the consolidated administration fee. We, through the Administrator, provide administrative and managerial assistance to our controlled affiliate, SPH. If requested to provide managerial assistance to our portfolio companies, we or PennantPark Investment Administration will be paid an additional amount based on the services provided. 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 our Consolidated Financial Statements.

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

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 annually dividends of at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we have retained and may continue to retain such net capital gains or ordinary income to provide us with additional liquidity. For the fiscal years ended September 30, 2011 and 2010, we have elected to retain a portion of our calendar year income and record an excise tax of $0.2 million and $0.1 million, respectively.

During the fiscal years ended September 30, 2011, 2010 and 2009, we declared to stockholders distributions of $1.07, $1.03 and $0.96 per share, respectively, for total distributions of $46.3 million, $32.3 million and $20.2 million, respectively. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. The specific tax characteristics of the distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year and in a periodic report filed with the SEC.

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

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

In January 2010, the Internal Revenue Service issued a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared with respect to a taxable year ending on or before December 31, 2011 and (3) each shareholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all shareholders, which must be at least 10% of the aggregate declared distribution. If too many shareholders elect to receive cash, each shareholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any shareholder electing to receive cash receive less than 10% of his or her entire distribution in cash. We have not elected to distribute stock as a dividend but reserve the right to do so.

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

Quantitative and Qualitative Disclosure about Market Risk

We are subject to financial market risks, including changes in interest rates. As of September 30, 2011, our portfolio consisted of 61% fixed-rate, 31% variable-rate with a LIBOR or prime floor and 8% variable-rate investments. The variable rate loans are usually based on a floating LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable rate investments subject to a floor generally reset by reference to the current market index after one to six months only if the index exceeds the floor. In regards to variable rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefits from market rates above a floor.

Assuming that the balance sheet as of September 30, 2011 were to remain constant, and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates may affect net income by more than 1% over a one-year horizon. Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the balance sheet and other business developments that could affect the net change in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in benefits of lower interest rates with respect to our portfolio of investments with fixed interest rates. During the periods covered by this prospectus, we did not engage in interest rate hedging activities.

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SENIOR SECURITIES

Information about our senior securities is shown in the following table as of September 30, 2011, 2010, 2009, 2008 and 2007 has been derived from our consolidated financial statements which have been audited by KPMG LLP, an independent registered public accounting firm. This information about our senior securities should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Class and Year	Total Amount Outstanding [(1)]	Asset Coverage per Unit[(2)] (unaudited)	Involuntary Liquidating Preference Per Unit[(3)]	Average Market Value Per Unit[(4)]
Credit Facility and SBA debentures				
Fiscal 2011[(5)]	$ 240,900	$ 2,912	N/A	N/A
Fiscal 2010	$ 247,600	$ 2,505	N/A	N/A
Fiscal 2009	$ 225,100	$ 2,115	N/A	N/A
Fiscal 2008	$ 202,000	$ 2,043	N/A	N/A
Fiscal 2007	$ 10,000	$ 28,039	N/A	N/A

(1) Total cost of each class of senior securities outstanding at the end of the period presented in thousands (000 s).

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by cost of senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage Per Unit.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Not applicable, as senior securities are not registered for public trading.

(5) These amounts exclude SBIC LP s SBA debentures from our asset coverage per unit computation pursuant to an exemptive relief letter provided by the SEC on June 1, 2011.

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PRICE RANGE OF COMMON STOCK

Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT . The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market. On December 16, 2011, the last reported closing price of our common stock was $10.16 per share.

		Closing Sales Price		High Sales	Low Sales	
Period	**NAV(1)**	**High**	**Low**	**Price to NAV(2)**	**Price to NAV(2)**	**Dividends Declared**
Fiscal year ending September 30, 2012						
First quarter (as of December 16, 2011)	$ N/A	$ 11.02	$ 8.57	N/A%	N/A%	$ 0.28
Fiscal year ending September 30, 2011						
Fourth quarter	10.13	11.52	8.89	114	88	0.27
Third quarter	11.08	12.43	10.97	112	99	0.27
Second quarter	11.30	13.05	11.21	115	99	0.27
First quarter	11.14	12.75	10.60	114	95	0.26
Fiscal year ending September 30, 2010						
Fourth quarter	10.69	10.69	9.17	100	86	0.26
Third quarter	10.94	11.84	9.02	108	82	0.26
Second quarter	11.07	10.77	8.88	97	80	0.26
First quarter	11.86	9.15	7.63	77	64	0.25
Fiscal year ended September 30, 2009						
Fourth quarter	11.85	9.06	6.28	76	53	0.24
Third quarter	11.72	7.65	3.85	65	33	0.24
Second quarter	12.00	4.05	2.64	34	22	0.24
First quarter	10.24	7.81	2.35	76	23	0.24
Fiscal year ended September 30, 2008						
Fourth quarter	10.00	8.50	5.92	85	59	0.24
Third quarter	10.77	8.60	7.05	80	65	0.22
Second quarter	10.26	11.31	8.38	110	82	0.22
First quarter	12.07	14.49	9.08	120	75	0.22
Fiscal year ended September 30, 2007						
Fourth quarter	12.83	14.76	12.61	115	98	0.22
Third quarter*	13.74	15.03	14.04	109	102	0.14

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period. See Determination of Net Asset Value in this prospectus for more information.

(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 BDCs may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares traded on the NASDAQ Global Select Market at $8.92 and $10.61 as of September 30, 2011 and September 30, 2010, respectively. Our NAV was $10.13 and $10.69, as of September 30, 2011 and September 30, 2010, 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

Our stockholders have in the past and may again approve our ability to sell shares of our common stock below our then current NAV per share in one or more public offerings of our common stock. In making a determination that an offering below NAV per share is in our and our stockholders best interests, our board of directors, a majority of our directors who have no financial interest in the sale and a majority of our independent directors considered a variety of factors, including:

- The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;
- The relationship of recent market prices of our common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- Whether the estimated offering price would closely approximate the market value of our shares, less distributing commissions or discounts, and would not be below current market price;
- The potential market impact of being able to raise capital in the current financial market;
- The nature of any new investors anticipated to acquire shares in the offering;
- The anticipated rate of return on and quality, type and availability of investments;
- The leverage available to us and SBIC LP, both before and after the offering and other borrowing terms; and
- The potential investment opportunities available relative to the potential dilutive effect of additional capital at the time of the offering.

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

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

We will not seek to sell shares under a prospectus supplement to the registration statement, or a post-effective amendment to the registration statement, of which this prospectus forms a part (the current registration statement) if the cumulative dilution to our NAV per share arising from offerings from the effective date of the current registration statement through and including any follow-on offering would exceed 15% based on the anticipated pricing of such follow-on offering. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the anticipated percentage dilution from each subsequent offering. For example, if our most recently determined NAV per share at the time of the first offering is $10.00, and we have 100 million shares outstanding, the sale of an additional 25 million shares at net proceeds to us of $5.00 per share (a 50% discount) would produce dilution of 10.0%. If we subsequently determined that our NAV per share increased to $11.00 on the then outstanding

125 million shares and contemplated an additional offering, we could, for example, propose to sell approximately 31.25 million additional shares at a price that would be expected to yield net proceeds to us of $8.25 per share, resulting in incremental dilution of 5.0%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

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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 sets of investors:

- existing stockholders who do not purchase any shares in the offering;
- existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and
- new investors who become stockholders by purchasing shares in the offering.

Impact on Existing Stockholders who do not Participate in the Offering

Our existing stockholders who do not participate, or who are not given the opportunity to participate in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. All stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares they hold. Stockholders who do not participate in the offering will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than stockholders who do participate in the offering. All stockholders may also experience a decline in the market price of their shares, which often reflects, to some degree, announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

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

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

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

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		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Total Asset Values							
Total NAV held by stockholder A	$ 100,000	$ 99,800	(0.20)%	$ 99,100	(0.90)%	$ 96,700	(3.30)%
Total investment by stockholder A (assumed to be $10.00 per share)	$ 100,000	$ 100,000		$ 100,000		$ 100,000	
Total dilution to stockholder A (total NAV less total investment)		$ (200)		$ (900)		$ (3,300)	
Per Share Amounts							
NAV per share held by stockholder A		$ 9.98		$ 9.91		$ 9.67	
Investment per share held by stockholder A (assumed to be $10.00 per share on shares held prior to sale)	$ 10.00	$ 10.00		$ 10.00		$ 10.00	
Dilution per share held by stockholder A (NAV per share less investment per share)		$ (0.02)		$ (0.09)		$ (0.33)	
Percentage dilution to stockholder A (dilution per share divided by investment per share)			(0.20)%		(0.90)%		(3.30)%

Impact on Existing Stockholders who Participate in the Offering

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

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

		50% Participation		150% Participation	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per share to public		$ 8.47		$ 8.47	
Net proceeds per share to issuer		$ 8.00		$ 8.00	
Increases in Shares and Decrease to NAV					
Total shares outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
NAV per share	$ 10.00	$ 9.67	(3.30)%	$ 9.67	(3.30)%
(Dilution)/Accretion to Participating Stockholder A					
Shares held by stockholder A	10,000	11,000	10.00%	13,000	30.00%
Percentage held by stockholder A	1.0%	0.92%	(8.00)%	1.08%	8.00%
Total Asset Values					
Total NAV held by stockholder A	$ 100,000	$ 106,370	6.37%	$ 125,710	25.71%
Total investment by stockholder A (assumed to be $10.00 per share on shares held prior to sale)	$ 100,000	$ 108,470	8.47%	$ 125,410	25.41%
Total (dilution)/accretion to stockholder A (total NAV less total investment)		(2,100)		$ 300	
Per Share Amounts					
NAV per share held by stockholder A		$ 9.67		$ 9.67	
Investment per share held by stockholder A (assumed to be $10.00 per share on shares held prior to sale)	$ 10.00	$ 9.86	(1.40)%	$ 9.65	(3.50)%
(Dilution)/accretion per share held by stockholder A (NAV per share less investment per share)		$ (0.19)		$ 0.02	
Percentage (dilution)/accretion to stockholder A (dilution/accretion per share divided by investment per share)			(1.93)%		0.21%

Impact on New Investors

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

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by us will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares. Investors who are not currently stockholders and who participate

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

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

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

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

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DISTRIBUTIONS

We intend to continue making quarterly distributions to our stockholders. The timing and amount of our quarterly distributions, if any, is determined by our board of directors. Any distributions to our stockholders are declared out of assets legally available for distribution. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders. The following table reflects the cash distributions, including dividends and returns of capital per share that we have declared on our common stock since our inception:

Record Dates	Payment Dates	Dividends Declared
Fiscal year ending September 30, 2012		
December 23, 2011	January 3, 2011	$ 0.28
Fiscal year ending September 30, 2011		
September 23, 2011	October 3, 2011	$ 0.27
June 20, 2011	July 1, 2011	$ 0.27
March 15, 2011	April 1, 2011	$ 0.27
December 17, 2010	January 3, 2011	$ 0.26
Total		$ 1.07
Fiscal year ending September 30, 2010*		
September 14, 2010	October 1, 2010	$ 0.26
June 24, 2010	July 1, 2010	$ 0.26
March 25, 2010	April 1, 2010	$ 0.26
December 24, 2009	January 4, 2010	$ 0.25
Total		$ 1.03
Fiscal year ended September 30, 2009*		
September 8, 2009	October 1, 2009	$ 0.24
June 24, 2009	July 1, 2009	$ 0.24
March 25, 2009	April 1, 2009	$ 0.24
December 23, 2008	January 4, 2009	$ 0.24
Total		$ 0.96
Fiscal year ended September 30, 2008		
September 24, 2008	October 1, 2008	$ 0.24
June 23, 2008	June 30, 2008	$ 0.22
March 24, 2008	March 31, 2008	$ 0.22
December 24, 2007	December 31, 2007	$ 0.22
Total		$ 0.90

* See note 8 to our Consolidated Financial Statements as of September 30, 2010.

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

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

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

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

We may distribute our common stock as a dividend of our taxable income and a shareholder could receive a portion of the dividends declared and distributed by us in shares of our common stock with the remaining amount in cash. A shareholder will be considered to have recognized dividend income equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. We have not elected to distribute stock as a dividend but reserve the right to do so. See Material U.S. Federal Income Tax Considerations for more information.

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

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BUSINESS

PennantPark Investment Corporation

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

We believe the middle-market offers attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately $10 million to $50 million of capital, on average, in the securities of middle-market companies. We use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies. In addition, we expect our debt investments to generally range in maturity from three to ten years.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. Turmoil in the credit markets over the last five years has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, middle-market debt instruments. These conditions have presented us with and may continue to offer attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured and mezzanine debt financing. We have used, and expect to continue to use, our credit facility, the SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Investment Corporation

PennantPark Investment Corporation, a Maryland corporation organized on January 11, 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for tax purposes we have elected to be treated as a RIC, under the Code.

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

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers to develop what we believe to be an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser s inception in 2007, it has raised about $1.2 billion in debt and equity capital and has invested over $1.5 billion in more than 150 companies with more than 70 different financial sponsors through its managed funds.

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

Market Opportunity

We believe that the limited amount of capital available to the middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for PennantPark Investment.

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

We believe middle-market companies have faced difficulty raising debt in private markets. Banks, finance companies, hedge funds and CLO funds have withdrawn capital from the middle-market resulting in opportunities for alternative funding sources.

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

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

We believe there is substantial supply of opportunities resulting from refinancing. A high volume of financings were completed between the years 2004 and 2007, which will mature in the next few years. This supply of opportunities coupled with a lack of demand offers attractive risk-adjusted returns to investors.

Competitive Advantages

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

a) Experienced Management Team

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

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

b) Disciplined Investment Approach with Strong Value Orientation

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

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

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

- strong competitive positions;
- positive cash flow that is steady and stable;
- experienced management teams with strong track records;
- potential for growth and viable exit strategies; and
- capital structures offering appropriate risk-adjusted terms and covenants.

c) Ability to Source and Evaluate Transactions through our Investment Adviser s Research Capability and Established Network

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

d) Flexible Transaction Structuring

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

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

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

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e) Longer Investment Horizon with Attractive Publicly-Traded Model

Unlike private equity and venture capital funds, we are not subject to standard periodic capital return requirements. Such requirements typically stipulate that funds raised by a private equity or venture capital fund, together with any capital gains on such invested funds, can only be invested once and must be returned to investors after a pre-agreed time period. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles enables us to generate attractive returns on invested capital and to be a better long-term partner for our portfolio companies.

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available to middle-market companies 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 BDC. See Risk Factors Risks Relating to our Business and Structure We operate in a highly competitive market for investment opportunities for more information.

Leverage

We maintain a multi-currency $315.0 million senior secured Credit Facility which matures on June 25, 2012 and is secured by substantially all of our investment portfolio assets (excluding the assets of SBIC LP). As of September 30, 2011, we had $240.9 million outstanding on the Credit Facility with a weighted average interest rate at the time of 1.27% and had $74.1 million of unused borrowing capacity. Pricing of borrowings under our Credit Facility is set at 100 basis points over LIBOR. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. In addition, any future additional debt capital we incur, including refinancing the debt outstanding under our Credit Facility, to the extent it is available under current credit market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for more information.

As of September 30, 2011, SBIC LP had drawn $150.0 million, with a weighted average interest rate of 3.70%, exclusive of 3.43% of upfront fees. SBA debentures offer competitive terms such as being non-recourse to us, a 10-year maturity, semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of SBIC LP and have a superior claim over such assets. See Regulation for more information.

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INVESTMENT OBJECTIVES AND POLICIES

Investment Policy Overview

We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity by targeting an investment size of $10 million to $50 million in securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor s system) from the national rating agencies. In addition, we expect our debt investments to range in maturity from three to ten years.

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

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

Senior Secured Debt

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

Mezzanine Debt

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

Investment Selection Criteria

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

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We have identified several criteria, discussed below, that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions. However, we caution that not all of these criteria will be met by each prospective portfolio company in which we choose to invest. Generally, we seek to use our experience and access to market information to identify investment candidates and to structure investments quickly and effectively.

Value orientation and positive cash flow

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

Experienced management and established financial sponsor relationship

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

Strong and defensible competitive market position

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

Viable exit strategy

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

Due Diligence

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

Our due diligence typically includes:

- review of historical and prospective financial information;
- on-site visits;
- interviews with management, employees, customers and vendors of the potential portfolio company;

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- review of loan documents;
- background checks; and
- research relating to the company s management, industry, markets, products and services and competitors.

Upon the completion of due diligence and a decision to proceed with an investment in a company, the team leading the investment presents the investment opportunity to our Investment Adviser s investment committee. This committee determines whether to pursue the potential investment. All new investments are required to be reviewed by the investment committee of our Investment Adviser. The members of the investment committee receive no compensation from us. These members are employees of our Investment Adviser and receive compensation from our Investment Adviser.

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

The Investment Adviser monitors credit risk of each portfolio company regularly and periodically with a goal toward identifying early and, when able and appropriate, selling, investments with potential credit problems. This monitoring process may include reviewing: (1) a portfolio company s financial resources and operating history; (2) comparing a portfolio company s current operating results with the Investment Adviser s initial thesis for the investment and its expectations for the performance of the investment; (3) a portfolio company s sensitivity to economic conditions; (4) the performance of a portfolio company s management; (5) a portfolio company s debt maturities and borrowing requirements; (6) a portfolio company s interest and asset coverage; and (7) the relative value of an investment based on a portfolio company s anticipated cash flow.

The Investment Adviser seeks to achieve our investment objective through a disciplined approach to the selection of credit investments and its evaluation of portfolio companies. The Investment Adviser also gains exposure to portfolio companies across a broad range of industries and of varying operating and financial characteristics and return profiles, as well as active management of such investments in light of economic developments and trends. However, we are classified as non-diversified under the 1940 Act, and our investment portfolio may be more concentrated than the portfolios of other issuers. We may take certain actions if short-term interest rates increase or market conditions otherwise change (or if we anticipate such an increase or change) and our use of leverage, if any, begins (or is expected) to adversely affect our common stockholders. To offset any potentially negative impact of leverage on common stockholders, we may shorten the average maturity of our investment portfolio (by investing in short-term securities) or may reduce our indebtedness or unwind other leveraged transactions. We may also attempt to reduce our use of leverage by redeeming or otherwise purchasing outstanding preferred stock or debt securities, if any.

Investment Structure

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

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

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

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

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

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

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

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

We expect to hold most of our investments to maturity or repayment, but may sell certain investments earlier if a liquidity event takes place, such as the sale or refinancing of a portfolio company. We also may turn over investments to better position the portfolio in light of market conditions.

Ongoing Relationships with Portfolio Companies

Monitoring

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

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

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

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

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

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

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

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Managerial assistance

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

Staffing

We do not currently have any employees. Our Investment Adviser and Administrator have hired and expect to continue to hire professionals with skills applicable to our business plan, including experience in middle-market investing, leveraged finance and capital markets.

Our Consolidated Portfolio

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

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

Communications	Logistics
Consumer Products	Manufacturing / Basic Industries
Containers Packaging & Glass	Media
Distribution	Oil and Gas
Diversified/Conglomerate Manufacturing	Personal, Food and Miscellaneous Services
Diversified/Conglomerate Services	Printing and Publishing
Education	Retail Store
Energy / Utilities	Telecommunications

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

Portfolio Company	September 30, 2011	Portfolio Company	September 30, 2010
Eureka Hunter Pipeline, LLC (Magnum Hunter Resources Corporation)	6%	Learning Care Group, Inc.	5%
Last Mile Funding Corp. (3PD, Inc.)	5%	Veritext Corporation	5%
Pre-Paid Legal Services, Inc.	5%	CT Technologies	4%
Kadmon Pharmaceuticals LLC (f/k/a Three River Pharmaceuticals LLC)	4%	Da-Lite Screen Company, Inc.	4%
Learning Care Group, Inc.	4%	i2 Holdings, Ltd.	4%
LTI Flexible Products, Inc.	4%	Instant Web, Inc.	4%
Veritext Corporation	4%	Saint Acquisition Corp.	4%
Instant Web, Inc.	3%	Sugarhouse HSP Gaming Properties	4%
Penton Media, Inc.	3%	Three Rivers Pharmaceutical, L.L.C.	4%
Prince Mineral Holdings Corp.	3%	Trizetto Group, Inc.	4%

Industry	September 30, 2011	Industry	September 30, 2010
Business Services	11%	Business Services	15%
Healthcare, Education & Childcare	10%	Healthcare, Education and Childcare	8%
Energy/Utilities	9%	Hotels, Motels, Inns and Gaming	7%
Cargo Transport	6%	Aerospace and Defense	6%
Chemicals, Plastics and Rubber	6%	Chemicals, Plastics and Rubber	6%
Consumer Products	5%	Home and Office Furnishings, Housewares and Durable Consumer Products	6%
Oil and Gas	5%	Education	5%
Personal, Food and Miscellaneous Services	5%	Transportation	4%
Printing and Publishing	5%	Insurance	4%
Aerospace and Defense	4%	Oil and Gas	4%

Our executive officers and directors, as well as the senior investment professionals of the Investment Adviser and Administrator, may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Currently, the executive officers and directors, as well as the current senior investment professionals of the Investment Adviser and Administrator, serve as officers and directors of PennantPark Floating Rate Capital Ltd., a publicly traded BDC. Accordingly, they may have obligations to investors in PennantPark Floating Rate Capital Ltd., the fulfillment of which obligations might not be in the best interest of us or our stockholders. In addition, we note that any affiliated investment vehicle currently existing, or formed in the future, and managed by the Investment Adviser and or its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities among us and such other entities. Although the Investment Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by the Investment Adviser or its affiliates. In any such case, when the Investment Adviser identifies an investment, it will choose which investment fund should receive the allocation. See Risk Factors Risks Relating to our Business and Structure There are significant potential conflicts of interest which could impact our investment returns for more information.

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We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. We may also co-invest in the future on a concurrent basis with affiliates of PennantPark Investment, subject to compliance with applicable regulations and our trade allocation procedures. Some types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. We have not sought, and there can be no assurance that we would obtain, any such order.

On September 30, 2011, our portfolio consisted of 48 companies and was invested 36% in senior secured loans, 20% in second lien secured debt, 37% in subordinated debt and 7% in preferred and common equity investments.

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PORTFOLIO COMPANIES

The following is a listing of each portfolio company or its affiliate, together referred to as portfolio companies, in which we had an investment at September 30, 2011. Percentages shown for class of investment securities held by us represent percentage of voting ownership and not economic ownership. Percentages shown for equity securities, other than warrants or options held, if any, represent the actual percentage of the class of security held before dilution. For additional information see our Consolidated Schedule of Investments in our September 30, 2011 Consolidated Financial Statements included elsewhere in this prospectus.

The portfolio companies are presented in three categories: Companies 5% or less owned which represent portfolio companies where we directly or indirectly own less than 5% of the outstanding voting securities of such portfolio company and where we have no other affiliations with such portfolio company; Companies 5% to 24% owned which represent portfolio companies where we directly or indirectly own 5% or more but less than 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company s board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and Companies 25% or more owned which represent portfolio companies where we directly or indirectly own 25% or more of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the 1940 Act. We make available significant managerial assistance to our portfolio companies. Substantially all of our investments (except those of SBIC LP) are pledged as collateral under our credit facility. Unless otherwise noted, we held no voting board membership on any of our portfolio companies.

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Voting Percentage Ownership(1)
Companies 5% or Less Owned			
Affinion Group Holdings, Inc. 100 Connecticut Avenue Norwalk, CT 06850	Consumer Products	Subordinated Debt	
AHC Mezzanine, LLC (Advanstar Inc.) 350 Park Avenue New York, NY 10022	Other Media	Preferred Equity	0.1%
American Surgical Holdings, Inc. (AH Holdings, Inc.) 10039 Bissonnet Street, Suite 250 Houston, TX 77036-7852	Healthcare, Education and Childcare	First Lien Secured Debt Preferred Equity Warrants	
Aquilex Holdings, LLC 3344 Peachtree Roads NE, Suite 2100 Atlanta, GA 30326	Diversified / Conglomerate Services	Subordinated Debt	
Brand Energy and Infrastructure Services, Inc. 2502 South Main Street Kennesaw, GA 30144	Energy / Utilities	Second Lien Secured Debt	
CEA Autumn Management, LLC	Broadcasting and Entertainment	Common Equity	3.1%

54 Thompson St. New York, NY 10012		
CEVA Group PLC 25 St. George Street London W1S 1FS United Kingdom	Logistics	First Lien Secured Debt
Chester Downs and Marina, LLC 777 Harrah s Blvd Chester, PA 19103	Hotels, Motels, Inns and Gaming	First Lien Secured Debt

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Name and Address of Portfolio Company	Nature of Business	Type of Investment	Voting Percentage Ownership(1)
Columbus International, Inc. Suite 205-207 Dowell House Cr. Roebuck & Palmetto Sts. Bridgetown, Barbados, West Indies	Communications	First Lien Secured Debt	
Consolidated Foundries, Inc. (CFHC Holdings, Inc.) 4200 Valley Blvd. Pomona, CA 91766	Aerospace and Defense	Subordinated Debt Preferred Equity Common Equity	0.7%
Covad Communications Group, Inc. 2220 O Toole Avenue San Jose, CA 95131	Telecommunications	First Lien Secured Debt	
CT Technologies Intermediate Holdings, LLC (CT Technologies Intermediate Holdings, Inc.) 875 North Michigan Avenue Chicago, IL 60601	Business Services	Common Equity	2.6%
DirectBuy Holdings, Inc. (DirectBuy Investors, L.P.) 8450 Broadway Merrillville, IN 46410	Consumer Products	Second Lien Secured Debt Common Stock	1.7%
Diversitech Corporation 6650 Sugarloaf Parkway, Suite 100, Duluth, GA 30097	Manufacturing/Basic Industry	Subordinated Debt	
Eureka Hunter Pipeline, LLC (Magnum Hunter Resources Corporation) 777 Post Oak Blvd., Suite 650 Houston, TX 77056	Energy/Utilities Oil and Gas	Second Lien Secured Debt Common Equity Warrants	0.9%
Escort, Inc. 5440 West Chester Road West Chester, OH 45069-2950	Electronics	Subordinated Debt	
Good Sam Enterprises, LLC (f/k/a Affinity Group Holdings Inc.) 2575 Vista Del Mar Drive Ventura, CA 93001	Consumer Products	First Lien Secured Debt	

Greatwide Logistics Services, L.L.C. (Transportation 100 HoldCo, LLC) 12404 Park Central Dr., Ste. 300s Dallas, TX 75251	Cargo Transport	Second Lien Secured Debt Common Equity	2.0%
Hanley-Wood, L.L.C. One Thomas Circle, NW St 600 Washington, DC 20005	Other Media	First Lien Secured Debt	
Instant Web, Inc. 7951 Powers Boulevard Chanhassen, MN 55317	Printing and Publishing	First Lien Secured Debt	
Interactive Health Solutions, Inc. 3800 North Wilke Road, Suite 155, Arlington Heights, IL 60004	Healthcare, Education and Childcare	First Lien Secured Debt	
Jacuzzi Brands Corp. 777 S. Flagler Drive, Suite 1100 West Palm Beach, FL 33401	Home and Office Furnishings, Housewares and Durable Consumer Products	First Lien Secured Debt	
K2 Pure Solutions NoCal, L.P. 3515 Massillion Road, Suite 290 Uniontown, OH 44685	Chemicals, Plastics and Rubber	First Lien Secured Debt	

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Name and Address of Portfolio Company	Nature of Business	Type of Investment	Voting Percentage Ownership(1)
Kadmon Pharmaceuticals, L.L.C. (f/k/a Three Rivers Pharmaceuticals, L.L.C.) Alexandria Center for Life Sciences 450 East 29th Street, 5th Floor New York, NY 10016	Healthcare, Education and Childcare	First Lien Secured Debt Common Equity	2.5%
Last Mile Funding, Corp. (3PD, Inc.) 68 South Service Road, Suite 120 Melville, NY 11747	Cargo Transport	Subordinated Debt	
Learning Care Group (US), Inc. 21333 Haggerty Road, Suite 300 Novi, MI 48375	Education	First Lien Secured Debt Subordinated Debt Warrants	
LTI Flexible Products, Inc. 600 S. McClure Road, Stanislaus County, CA 95357	Chemical, Plastic and Rubber	Subordinated Debt	
MailSouth, Inc. 5901 Highway 52 East Helena, AL 35080	Printing and Publishing	Subordinated Debt	
MedQuist, Inc. 1000 Bishops Gate Blvd., Suite 300 Mt. Laurel, NJ 08054	Business Services	Subordinated Debt	
PAS Technologies, Inc. (PAS Tech Holdings, Inc.) 1234 Atlantic Street North Kansas City, MO 64116	Aerospace and Defense	Subordinated Debt Preferred Equity Common Equity	1.6%
Penton Media, Inc. 249 W. 17th Street, 4th Floor New York, NY 10011	Other Media	First Lien Secured Debt	
Pre-Paid Legal Services, Inc. (MidOcean PPL Holdings, Inc.) One Pre-Paid Way Ada, OK 74820	Personal, Food and Miscellaneous Services	First Lien Secured Debt Common Equity	2.2%

Prince Mineral Holdings Corp. 14 East 44th Street New York, NY 10020	Mining, Steel, Iron and Non-Precious Metals	Subordinated Debt	
Questex Media Group LLC (QMG HoldCo, LLC) 275 Grove Street, Suite 2-130 Newton, MA 02466	Other Media	First Lien Secured Debt Second Lien Secured Debt Common Equity	4.8%
RAM Energy Resources, Inc. 5100 East Skelly Drive, Suite 650 Tulsa, OK 74135	Oil and Gas	Second Lien Secured Debt	
Realogy Corp. One Campus Drive Parsippany, NJ 07054	Buildings and Real Estate	Second Lien Secured Debt Subordinated Debt	
ROC Finance LLC and ROC Finance 1 Corp. One Campus Maritus, 1086 Woodward Avenue, Detroit, MI 48226	Hotels, Motels, Inns and Gaming	Second Lien Secured Debt	
Sheridan Holdings, Inc. 1613 N. Harrison Parkway, Suite 200 Sunrise, FL 33323	Healthcare, Education and Childcare	Second Lien Secured Debt	

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Name and Address of Portfolio Company	Nature of Business	Type of Investment	Voting Percentage Ownership(1)
TRAK Acquisition Corp. 1001 Brickell Bay Drive, 27th Floor Miami, FL 33131	Business Services	Subordinated Debt Warrants	
TransFirst Holdings, Inc. 5950 Berkshire Lane, Suite 1100 Dallas, TX 75225	Financial Services	Second Lien Secured Debt	
TZ Holdings, L.P. (Trizetto Group, Inc.) 567 San Nicolas Drive, Suite 360 Newport Beach, CA 92660	Insurance	Preferred Equity Common Equity	0.2%
UP Support Services, Inc. (Universal Pegasus International, Inc.) 4848 Loop Central Drive Houston, TX 77081	Oil and Gas	Subordinated Debt Preferred Equity Common Equity	1.0%
Veritext Corp. (VText Holdings, Inc.) 50 Public Square, 29th Floor Cleveland, OH 44113	Business Services	Subordinated Debt Common Equity	3.6%
VPSI, Inc. (Verde Parent Holdings, Inc.) 1220 Rankin Drive Troy, MI 48083	Personal Transportation	First Lien Secured Debt Preferred Equity Common Equity	3.3%
Yonkers Racing Corp. 810 Yonkers Avenue New York, NY 10704	Hotels, Motels, Inns and Gaming	First Lien Secured Debt	
Companies 5% to 24% Owned			
EnviroSolutions, Inc. 11220 Asset Loop, Suite 201 Manassas, VA 20109	Environmental Services	First Lien Secured Debt Second Lien Secured Debt Common Equity Warrants	6.9%(2), (3)
Performance Holdings, Inc. (NCP-Performance) One Performance Way Chapel Hill, NC 27514	Leisure, Amusement, Motion Pictures, Entertainment	Second Lien Secured Debt Subordinated Debt	6.3%

		Common Equity	
Companies 25% or More Owned			
SuttonPark Holdings, Inc.	Business Services	First Lien Secured Debt	100%(3), (4)
590 Madison Avenue, 15th Floor		Subordinated Debt	
New York, NY 10022		Preferred Equity	
		Common Equity	

(1) Voting ownership percentage refers only to common equity, preferred equity and warrants held, if any.
(2) On a fully diluted basis, our percentage ownership is 7.6%.
(3) Indicates that we hold voting seats on portfolio companies board of directors.
(4) Indicates that we provide managerial assistance. See Certain Relationships and Transactions for more information.

Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets at September 30, 2011.

Eureka Hunter Pipeline, LLC (Magnum Hunter Resources Corporation)

Eureka Hunter Pipeline, LLC is a wholly-owned subsidiary of Magnum Hunter Resources and a pipeline gathering system in the Marcellus Shale region.

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The table below describes investments by industry classification and enumerates the percentage, by market value, of the total portfolio assets (excluding cash equivalents) in such industries as of September 30, 2011 and September 30, 2010.

Industry Classification	September 30, 2011	September 30, 2010
Business Services	11%	15%
Healthcare, Education & Childcare	10	8
Energy / Utilities	9	3
Cargo Transport	6	6
Chemicals, Plastic and Rubber	6	1
Consumer Products	5	1
Oil and Gas	5	4
Personal, Food and Miscellaneous Services	5	2
Printing and Publishing	5	4
Aerospace and Defense	4	6
Education	4	5
Hotels, Motels, Inns and Gaming	4	7
Other Media	4	2
Electronics	3	
Environmental Services	3	3
Mining, Steel, Iron, and Non-Precious Metals	3	
Buildings and Real Estate	2	3
Leisure, Amusement, Motion Pictures, Entertainment	2	2
Personal Transportation	2	4
Communications	1	4
Manufacturing / Basic Industry	1	
Diversified / Conglomerate Services		3
Home and Office Furnishings, Housewares & Durable Consumer Products		6
Insurance		4
Telecommunications		3
Other	5	4
Total	100%	100%

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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.

Board of Directors

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

Information regarding the board of directors is as follows:

Name	Age	Position	Director Since	Expiration of Term
Independent directors				
Adam K. Bernstein	48	Director	2007	2012
Marshall Brozost	44	Director	2007	2014
Jeffrey Flug	49	Director	2007	2012
Samuel L. Katz	46	Director	2007	2014
Interested director				
Arthur H. Penn	48	Chairman of the Board and Chief Executive Officer	2007	2013

Executive Officer Who is Not a Director

The following information pertains to our executive officer who is not a director of PennantPark Investment.

Name Address	Age	Position
Aviv Efrat	47	Chief Financial Officer and Treasurer

Officer Who is Not a Director

The following information pertains to our officer who is not a director of PennantPark Investment.

Name Address	Age	Position
Guy F. Talarico	56	Chief Compliance Officer

The executive office is located at 590 Madison Avenue, 15th Floor, New York, New York 10022.

Board of Directors Composition and Leadership Structure

The 1940 Act requires that at least a majority of our directors not be interested persons (as defined in the 1940 Act) of the Company. Currently, four of our five directors are Independent Directors; however the Chairman of our board of directors is our Chief Executive Officer and therefore an interested person of us. The Independent Directors believe that the combined positions of our Chief Executive Officer and Chairman of the board of directors results in greater efficiencies in managing us by eliminating the need to transfer substantial information quickly and repeatedly between the Chief Executive Officer and the Chairman and offering the

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ability to capitalize on the specialized knowledge acquired from the duties of the roles. The board of directors has not identified a lead Independent Director; however, it has determined that its leadership structure, in which 80% of the directors are Independent Directors and, as such are not affiliated with the Investment Adviser or Administrator, is appropriate in light of the services that the Investment Adviser and the Administrator provides us and the potential conflicts of interest that could arise from these relationships.

Board of Directors Risk Oversight Role

The board of directors performs its risk oversight function primarily through (1) its two standing committees, described more fully below, which report to the entire board of directors and are comprised solely of Independent Directors and (2) monitoring by our Chief Compliance Officer in accordance with our compliance policies and procedures.

As described below in more detail under Audit Committee and Nominating and Corporate Governance Committee, the board of director s Audit Committee and Nominating and Corporate Governance Committee assist the board of director in fulfilling its risk oversight responsibilities. The Audit Committee s risk oversight responsibilities include overseeing our accounting and financial reporting processes, including the annual audit of our financial statements and systems of internal controls regarding finance and accounting, pre-approving the independent accountants engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Nominating and Corporate Governance Committee s risk oversight responsibilities include selecting, researching and nominating directors for election by our stockholders, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the directors and our management. Both the Audit Committee and the Nominating and Corporate Governance Committee consist solely of Independent Directors.

The board of directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. Our Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures and certain of its service providers. The Chief Compliance Officer s report, which is reviewed by the board of directors, addresses at a minimum (1) the operation of our compliance policies and procedures and certain of our service providers since the last report; (2) any material changes to such policies and procedures since the last report; (3) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer s annual review; and (4) any compliance matter that has occurred since the date of the last report about which the board of directors would reasonably need to know to oversee our compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the Independent Directors at least once each year.

We believe that the board of director s role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a BDC. Specifically, as a BDC, we must comply with certain regulatory requirements that control the levels of risk in its business and operations. For example, our ability to incur indebtedness is limited such that its asset coverage must equal at least 200% immediately after each time we incur indebtedness, and we generally must invest at least 70% of our total assets in qualifying assets . In addition, we elected to be treated as a RIC under the Code. As a RIC we must, among other things, meet certain income source and asset diversification requirements.

We believe that the extent of the board of director s and its committees roles in risk oversight complements the board of director s leadership structure. Because they are comprised solely of Independent Directors, the Audit Committee and the Nominating and Corporate Governance Committee are able to exercise their oversight responsibilities without any conflict of interest that might discourage critical questioning and review. Through regular executive session meetings with the our independent auditors, Chief Compliance Officer and Chief Executive Officer, the Independent Directors have similarly established direct communication and oversight channels that the board of directors believes foster open communication and early detection of issues of concern.

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We believe that the board of director s role in risk oversight must be evaluated on a case by case basis and that the current configuration and allocation of responsibilities among the board of directors and its committees with respect to the oversight of risk is appropriate. However, the board of directors and its committees continually re-examine the manner in which they administers their respective risk oversight functions, including through formal annual assessments of ensure that they meet our needs.

Biographical Information

The board of directors believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the board of directors to operate effectively in governing us and protecting the interests of our stockholders. Below is a description of the various experiences, qualifications, attributes and/or skills with respect to each director considered by the board of directors. Our directors have been divided into two groups-interested directors and independent directors. Interested directors are interested persons as defined in the 1940 Act.

Independent Directors

Adam K. Bernstein (48), Director. Mr. Bernstein became a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and March 2011, respectively. Mr. Bernstein is currently President of The Bernstein Companies, a Washington, D.C.-based real estate firm which he joined in 1986. Mr. Bernstein also serves as the President and Chief Executive Officer of Consortium Atlantic Realty Trust, Inc., a private real estate investment trust operating in the Mid-Atlantic region since its formation in 2000. Mr. Bernstein is the President of the Mid-Atlantic Regional Advisory Board of the University of Pennsylvania.

Marshall Brozost (44), Director. Mr. Brozost became a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and March 2011, respectively. Since 2007, Mr. Brozost has been Partner at the international law firm of Dewey & LeBoeuf LLP, where he practices in the real estate and private equity groups. Prior to his tenure at Dewey & LeBoeuf LLP which began in 2005, Mr. Brozost practiced law at O Melveny & Myers LLP from 2001 to 2004 and Solomon & Weinberg LLP from 2004 to 2005. Mr. Brozost also served as a Vice President of Nomura Asset Capital Corporation from 1997 through 2000.

Jeffrey Flug (49), Director. Mr. Flug became a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and March 2011, respectively. Since 2009, Mr. Flug is the President of Union Square Hospitality Group, LLC, an exclusive chain of restaurants. Mr. Flug was Chief Executive Officer and Executive Director of Millennium Promise Alliance, Inc. from 2006 to 2008. Millennium Promise is a non-profit organization whose mission is to eradicate extreme global poverty. Mr. Flug was Managing Director and Head of North American Institutional Sales at JP Morgan s Investment Bank from 2000 to 2006. From 1988 to 2000, Mr. Flug was Managing Director for Goldman Sachs & Co. in its Fixed Income Division.

Samuel L. Katz (46), Director. Mr. Katz became a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and March 2011, respectively. Since 2007, Mr. Katz is the Managing Partner of TZP Group LLC, a private equity fund. He served as Chief Executive Officer of MacAndrews & Forbes Acquisition Holdings, Inc. from 2006 to 2007. From 1996 to 2006, Mr. Katz held a variety of senior positions at Cendant Corporation including, most recently, Chairman and Chief Executive Officer of the Cendant Travel Distribution Services Division from 2001 to 2005. Mr. Katz was also Co-Chairman of Cendant s Marketing Services Division as well as Chief Strategic Officer.

Interested Director

Arthur H. Penn (48) Founder, Chief Executive Officer and Chairman of the board of directors. Mr. Penn became the Chief Executive Officer and a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. at their inception in January 2007 and March 2011, respectively. He also founded and became

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

Executive Officer and Officer who are not Directors

Aviv Efrat (47), Chief Financial Officer and Treasurer. Mr. Efrat became PennantPark Investment s and PennantPark Floating Rate Capital Ltd. s Chief Financial Officer and Treasurer in February 2007 and March 2011, respectively. Mr. Efrat is also a Managing Director of PennantPark Investment Administration, LLC. Mr. Efrat was a Director at BlackRock, Inc., where he was responsible for a variety of administrative, operational, and financial aspects of closed-end and open-end registered investment companies from 1997 to 2007. From 1994 to 1997, Mr. Efrat was in the Investment Companies Business Unit at Deloitte & Touche LLP. He is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Guy F. Talarico (56), Chief Compliance Officer. Mr. Talarico became PennantPark Investment s and PennantPark Floating Rate Capital Ltd. s Chief Compliance Officer in 2008 and 2011, respectively. Mr. Talarico has served as Chief Compliance Officer for investment advisers, private funds and investment companies since 2004. From 2001 to 2004, Mr. Talarico was Senior Director at Investors Bank & Trust Company where he was servicing investment advisers, mutual funds and institutions. From 1986 to 2001, Mr. Talarico was a division executive with JPMorgan Chase Bank, N.A., servicing equity and fixed-income portfolio management, money market trading and custody functions, as well as overseeing compliance. Mr. Talarico has been admitted to practice law in the States of New Jersey and New York.

Committees of the Board of Directors

For the fiscal year ended September 30, 2011, we held four board of directors meetings, four Audit Committee meetings and one Nominating and Corporate Governance Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the board of directors and of the respective committees on which they served. We require each director to make a diligent effort to attend all board of directors and committee meetings, and encourage directors to attend the annual meeting of stockholders.

Audit Committee

The members of the Audit Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the NASDAQ corporate governance rules. Messrs. Flug and Katz serve as Co-Chairman of the Audit Committee. The Audit Committee operates pursuant to an Audit Committee Charter approved by the board of directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm (the auditors) to audit our accounts and records; reviewing and discussing with management and the auditors our annual audited financial statements, including disclosures made in management s discussion and analysis of financial condition and results of operations, and recommending to the board of directors whether the audited financial statements should be included in our annual report on Form 10-K; reviewing and discussing with management and the auditors our quarterly financial statements prior to the filings of our quarterly reports on Form 10-Q; pre-approving the auditors engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the auditors. The Audit Committee is also responsible for aiding our board of directors in fair value pricing of debt and equity securities. The board of directors and Audit Committee use the services of nationally recognized independent valuation firms to help them determine the fair value of certain securities. Our board of directors has determined that each of Messrs. Flug and Katz is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K under the Exchange Act. The Audit Committee Charter is available on our website *www.pennantpark.com*.

Nominating and Corporate Governance Committee

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

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

Criteria considered by the Nominating and Corporate Governance Committee in evaluating the qualifications of individuals for election as director of the board of directors include compliance with the independence and other applicable requirements of the NASDAQ corporate governance rules and the 1940 Act, and all other applicable laws, rules, regulations and listing standards; the criteria, policies and principles set forth in our Nominating and Corporate Governance Committee Charter; and the ability to contribute to our effective management, taking into account our needs and such factors as the individual s experience, perspective, skills and knowledge of the industry in which we operate. The Nominating and Corporate Governance Committee has not adopted a formal policy with regard to the consideration of diversity in identifying individuals for election as members of the board of directors, but the Committee will consider such factors as they may deem are in the best interests of us and our stockholders. Those factors may include a person s differences of viewpoint, professional experience, education and skills, as well as his or her race, gender and national origin. In addition, as part of the board of director s annual-self assessment, the members of the Nominating and Corporate Governance Committee evaluate the membership of the board of directors and whether the board of directors maintains satisfactory policies regarding membership selection.

Compensation Committee

We do not have a compensation committee because our executive officers do not receive compensation from us. Our board of directors, as a whole, participates in the consideration of director compensation and decisions are based on a review of data of comparable companies, amongst other factors.

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Compensation of Directors

The following table shows information regarding the compensation paid by us to our directors for the fiscal year ended September 30, 2011. No compensation is paid directly by us to any interested director or executive officer of the Company.

Name	Aggregate compensation	Pension or retirement benefits accrued as part of our expense(1)	Total paid to director / officer
Independent Directors			
Adam K. Bernstein	$ 105,000	None	$ 105,000
Marshall Brozost	$ 105,000	None	$ 105,000
Jeffrey Flug	$ 115,000	None	$ 115,000
Samuel L. Katz	$ 112,500	None	$ 112,500
Interested Director			
Arthur H. Penn	None	None	None
Executive Officer			
Aviv Efrat(2)	None	None	None

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits from us.
(2) Mr. Efrat is an employee of PennantPark Investment Administration, LLC.

Each Independent Director receives an annual payment of $90,000 for services performed on behalf of us as a director. The Independent Directors also receive $2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board of directors meeting and receive $1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting (unless combined with a board of directors meeting). In addition, each Co-Chairman of the Audit Committee receives an annual fee of $12,500 and each Co-Chairman of any other committee receives an annual fee of $2,500 for his additional services in these capacities. Also, we have purchased directors and officers liability insurance on behalf of our directors and officers. Independent Directors have the option to receive their directors fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment. No compensation is expected to be paid to directors who are interested persons.

Portfolio Managers, or Senior Investment Professionals, Biographical Information.

Our Investment Adviser has three experienced investment professionals in addition to Mr. Penn. These senior investment professionals of the Investment Adviser have worked together for many years, and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Below is a summary of their biographical information. Our investment professionals receive no compensation from us. The compensation of these individuals is paid by our Investment Adviser and compensation includes a base salary and a bonus contingent upon past and future performance.

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

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

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

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

In addition to managing our investments, as of September 30, 2011 our portfolio managers also managed investments on behalf of the following entity:

Name	Entity	Investment Focus	Gross Assets ($ in millions)
PennantPark Floating Rate Capital Ltd.	Business development company	Primarily floating rate loans, with an emphasis on senior secured loans, in middle-market leveraged companies.	$ 121

The management and incentive fees payable by PennantPark Floating Rate Capital Ltd. are based on the gross assets and performance of PennantPark Floating Rate Capital Ltd., respectively.

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CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

As of the December 2, 2011, to our knowledge, no person would be deemed to control us, as such term is defined in the 1940 Act. Our directors consist of an interested director and Independent Directors.

The following table sets forth, as of December 2, 2011, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5 percent or more of our outstanding common stock and all officers and directors, as a group.

Name and address[1]	Type of ownership[4]	Shares owned	Percentage of Common Stock Outstanding
Independent directors			
Adam K. Bernstein[2]	Record/Beneficial	88,971	*
Marshall Brozost	Record/Beneficial	11,043	*
Jeffrey Flug	Record/Beneficial	102,358	*
Samuel L. Katz	Record/Beneficial	113,482	*
Interested director			
Arthur H. Penn[3]	Record/Beneficial	499,475	1.1%
Executive officer			
Aviv Efrat	Record/Beneficial	40,294	*
All directors and executive officer as a group (6 persons)	Record/Beneficial	855,623	1.9%

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

(2) Mr. Bernstein is the President of JAM Investments, LLC and may therefore be deemed to own beneficially the 68,235 shares held by JAM Investments, LLC.

(3) Mr. Penn is the Managing Member of PennantPark Investment Advisers, LLC and may therefore be deemed to own beneficially the 309,791 shares held by PennantPark Investment Advisers, LLC.

(4) Sole Voting Power.

* Less than 1 percent.

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Dollar Range of Securities Beneficially Owned by Directors, Officers and Senior Investment Professionals

The following table sets forth the dollar range of our common stock beneficially owned by each of our directors, officers and senior investment professionals as of December 2, 2011. Information as to the beneficial ownerships is based on information furnished to us by such persons. We are not part of a family of investment companies, as that term is defined in the 1940 Act.

Directors	**Dollar Range of the Common Stock of the Companies[1]**		
	PennantPark Investment Corporation	**PennantPark Floating Rate Capital Ltd.**	**Total**
Independent directors			
Adam K. Bernstein[2]	$500,001 $1,000,000	$ 50,001 $100,000	$500,001 $1,000,000
Marshall Brozost	$100,001 $ 500,000	None	$100,001 $ 500,000
Jeffrey Flug	Over $1,000,000	None	Over $1,000,000
Samuel L. Katz	Over $1,000,000	$100,001 $500,000	Over $1,000,000
Interested director			
Arthur H. Penn[3]	Over $1,000,000	$ 1 $ 10,000	Over $1,000,000
Senior Investment Professionals			
Jose A. Briones	$100,001 $ 500,000	None	$100,001 $ 500,000
Salvatore Giannetti III	$100,001 $ 500,000	$ 10,001 $ 50,000	$100,001 $ 500,000
P. Whitridge Williams, Jr.	$500,001 $1,000,000	$ 10,001 $ 50,000	$500,001 $1,000,000

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

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

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

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CERTAIN RELATIONSHIPS AND TRANSACTIONS

Investment Management Agreement

PennantPark Investment has entered into the Investment Management Agreement with the Investment Adviser under which the Investment Adviser, subject to the overall supervision of PennantPark Investment s board of directors, manages the day-to-day operations of and provides investment advisory services to, PennantPark Investment. Mr. Penn, our Chairman and Chief Executive Officer, is the managing member and a senior investment professional of, and has a financial and controlling interests in PennantPark Investment Advisers. PennantPark Investment, through the Investment Adviser, manages day-to-day operations of and provides investment advisory services to SBIC LP under its investment management agreement. The SBIC LP investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Under the terms of our Investment Management Agreement, PennantPark Investment Advisers:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and
- closes and monitors the investments we make.

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

Investment Advisory Fees

The base management fee is calculated at an annual rate of 2.00% of our gross assets (net of U.S. Treasury Bills and/or temporary draws on the Credit Facility or average adjusted gross assets, if any). Our base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base investment advisory fees for any partial month or quarter are appropriately prorated. For the fiscal years ended September 30, 2011, 2010 and 2009, the Investment Adviser earned base management fees, after fee waivers, if any, of $14.9 million, $11.6 million and $7.7 million, respectively, from us.

The incentive fee has two parts, as follows:

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

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of our net assets at the end of the immediately preceding calendar quarter, will be compared to a hurdle of 1.75% per quarter (7.00% annualized). We have agreed to pay PennantPark Investment Advisers an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which PennantPark Investment s Pre-Incentive Fee Net Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle but is less than 2.1875% in any calendar quarter (8.75% annualized). We refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.1875%) as the catch-up. The catch-up is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income as if a hurdle did not apply if this net investment income exceeds 2.1875% in any calendar quarter, and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to our Investment Adviser (once the hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Investment Income thereafter is allocated to our Investment Adviser). These calculations are appropriately prorated and adjusted for any share issuances or repurchases during the current quarter.

The following is a graphical representation of calculation of quarterly incentive fee based on Net Investment Income

Pre-incentive fee net investment income

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

Percentage of pre-incentive fee net investment income

allocated to income-related portion of incentive fee

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and management agreement, as of the termination date), commencing on December 31, 2007 and equals 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the fiscal years ended September 30, 2011, 2010 and 2009, the Investment Adviser earned incentive fees of $13.2 million, $8.0 million and $5.7 million, respectively. For the fiscal years ended September 30, 2011, 2010 and 2009 our unrealized capital gains did not exceed our cumulative realized and unrealized capital losses.

Examples of Quarterly Incentive Fee Calculation

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

Alternative 1

Assumptions

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

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

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

Pre-Incentive Fee Net Investment Income

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

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

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Alternative 2

Assumptions

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

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

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

Pre-Incentive Fee Net Investment Income

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

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

Alternative 3

Assumptions

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

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

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

Pre-Incentive Fee Net Investment Income

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

Incentive fee	= 20% X Pre-Incentive Fee Net Investment Income, subject to catch-up
Incentive fee	= 100% x catch-up + (20% x (Pre-Incentive Fee Net Investment Income 21875%))
Catch-up	= 21875% - 1.75%
	= 0.4375%
	= (100% x 0.4375%) + (20% x (2.30% - 2.1875%))
	= 0.4375% + (20% x 0.1125%)
	= 0.4375% + 0.0225%
	= 0.46%

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Example 2: Capital Gains Portion of Incentive Fee:

Assumptions

Year 1 = no net realized capital gains or losses

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

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

(*) The hypothetical amount of Pre-Incentive Fee Net Investment Income shown is based on a percentage of total net assets.
(1) Represents 7.0% annualized hurdle.
(2) Represents 2.0% annualized base management fee. Although the management fee is 2.00% of our average adjusted gross assets, the Investment Adviser agreed to waive a portion of the base management fee such that the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007, 1.75% from October 1, 2007 through March 31, 2008, and 2.00% thereafter.
(3) Excludes organizational and offering expenses.

Organization of the Investment Adviser

PennantPark Investment Advisers is a registered investment adviser under the Advisers Act of 1940. The principal executive office of PennantPark Investment Advisers is located at 590 Madison Avenue, 15th Floor, New York, NY 10022.

Administration Agreement

Pursuant to the Administration Agreement, the Administrator furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Under our Administration Agreement, the Administrator performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Administrator assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. PennantPark Investment, through the Administrator, provides similar services to SBIC LP under its administration agreement. Payments under our Administration Agreement are equal to an amount based upon our allocable portion of the Administrator s overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the cost of compensation and related expenses of our Chief Compliance Officer and Chief Financial Officer and their respective staffs. Under our Administration Agreement, the Administrator offers, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. To the extent that our Administrator outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to the Administrator. For the fiscal years ended September 30, 2011, 2010 and 2009, the Investment Adviser and Administrator were reimbursed $2.6 million, $2.1 million and $1.7 million, respectively.

PennantPark Investment entered into an administration agreement with its controlled affiliate, SuttonPark Holdings, Inc. and its subsidiaries (SPH). Under the administration agreement with SPH, or the SPH

Administration Agreement, PennantPark Investment through the Administrator furnishes SPH with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Additionally, the Administrator performs, or oversees the performance of, SPH s required administrative services, which include, among other things, maintaining financial records, preparing financial reports and filing tax returns. Payments under the SPH Administration Agreement are equal to an amount based upon SPH s allocable portion of the Administrator s overhead in performing its obligations under the SPH Administration Agreement, including rent and allocable portion of the cost of compensation and related expenses of our Chief Financial Officer and respective staff. For the fiscal years ended September 30, 2011 and 2010, PennantPark Investment was reimbursed $0.5 million and $0.1 million, respectively, from SPH expenses it incurred on behalf of the Administrator for the services described above.

Duration and Termination

The Investment Management Agreement was re-approved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2011. Unless terminated earlier as described below, our Investment Management Agreement will continue in effect for a period of one year through February 2012. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. In considering whether to re-approve the Investment Management Agreement, the board requests information from the Investment Adviser that enables it to evaluate a number of factors relevant to its determination. These factors include the nature, quality and extent of services performed by the Investment Adviser, our ability to effectively manage conflicts of interest, our short and long-term performance, our costs and profitability and any economies of scale.

The Investment Management Agreement will automatically terminate in the event of its assignment. The Investment Management Agreement may be terminated by either party without penalty upon not more than 60 days written notice to the other. See Risk Factors Risks Relating to our Business and Structure We are dependent upon PennantPark Investment Advisers key personnel for our future success, and if we are unable to hire and retain qualified personnel or if we lose any member of our management team, our ability to achieve our investment objectives could be significantly harmed for more information.

Indemnification

Our Investment Management Agreement and Administration Agreement provide that, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations, PennantPark Investment Advisers and PennantPark Investment Administration and their officers, manager, partners, agents, employees, controlling persons, members and any other person or entity affiliated with them are entitled to indemnification from PennantPark Investment for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of PennantPark Investment Advisers and PennantPark Investment Administration s services under our Investment Management Agreement or Administration Agreement or otherwise as Investment Adviser or Administrator for PennantPark Investment.

License Agreement

We have entered into the License Agreement with PennantPark Investment Advisers pursuant to which PennantPark Investment Advisers has granted us a royalty-free, non-exclusive license to use the name PennantPark. Under this agreement, we have a right to use the PennantPark name, for so long as PennantPark Investment Advisers or one of its affiliates remains our Investment Adviser. Other than with respect to this limited license, we have no legal right to the PennantPark name.

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DETERMINATION OF NET ASSET VALUE

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

As a business development company, we generally invest in illiquid securities including debt and equity investments of middle-market companies. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. First lien secured debt, subordinated debt and other debt investments with maturities greater than 60 days generally are valued by an independent pricing service or at the bid prices from at least two broker/dealers (if available, otherwise by a principal market maker or a primary market dealer). Investments, of sufficient credit quality, purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value.

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

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

(1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;

(3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of an investment. The independent valuation firm reviews management s preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

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

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

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

Determinations In Connection With Offerings

In connection with each offering of shares of our common stock, our board of directors or a committee thereof will be required to make the determination that we are not selling shares of our common stock at a price below net asset value of our common stock at the time at which the sale is made unless we receive the consent of the majority of our common stockholders to do so, and the board of directors decides that such an offering is in the best interests of our common stockholders. Our board of directors will consider the following factors, among others, in making such determination:

- the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC;

- our management s assessment of whether any change in the net asset value of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recent public filing with the SEC that discloses the net asset value of our common stock and ending two days prior to the date of the sale of our common stock; and

- the magnitude of the difference between the offering price of the shares of our common stock in the proposed offering and management s assessment of any change in the net asset value of our common stock during the period discussed above.

Importantly, this determination will not necessarily require that we calculate the net asset value of our common stock in connection with each offering of shares of our common stock, but instead it will involve the determination by our board of directors or a committee thereof that we are not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or otherwise in violation of the 1940 Act. However, if we receive the consent of a majority of our common stockholders to issue shares of our common stock at a price below our then current NAV, and our board of directors decides that such an offering is in the best interest of our common stockholders and we may undertake such an offering. See Sales Of Common Stock Below Net Asset Value for more information.

To the extent that the above procedures result in even a remote possibility that we may (i) in the absence of stockholder approval issue shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or (ii) trigger our undertaking to suspend the offering of shares of our common stock pursuant to this prospectus if the net asset value fluctuates by certain amounts in certain circumstances until the prospectus is amended, the board of directors or a committee thereof will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine net asset value within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine net asset value to ensure that such undertaking has not been triggered.

We may, however, subject to the requirements of the 1940 Act, issue rights to acquire our common stock at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our

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securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, we note that for us to file a post-effective amendment to this registration statement on Form N-2, we must then be qualified to register our securities on Form N-2. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations of the board of directors described in this section, and we will maintain these records with other records that we are required to maintain under the 1940 Act.

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DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash dividend or other distribution, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

No action is required on the part of registered stockholders to have their cash dividend or other distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying American Stock Transfer & Trust Company, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends or other distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant s account, issue a certificate registered in the participant s name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends and other distributions in cash by notifying their broker or other financial intermediary of their election.

Generally, we intend to issue shares to implement the plan, when our shares are trading at a premium to our net asset value per share. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the NASDAQ Global Select Market on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on the NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend or other distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

Except as described below, the plan administrator s fees will be paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant s account and remit the proceeds to the participant, the plan administrator is authorized to deduct a $15.00 transaction fee plus a $0.10 per share brokerage commissions from the proceeds. Additionally, there are brokerage commissions, currently $0.03 per share, incurred in connection with open market purchases.

Stockholders who receive dividends and other distributions in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. A stockholder s basis for determining gain or loss upon the sale of stock received in a dividend or other distribution from us will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a dividend or other distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder s account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at *www.amstock.com* or by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, P.O. Box 922, Wall Street Station, New York, New York 10269, or by the plan administrator s Interactive Voice Response System at 1-888-777-0324.

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DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

Capital Stock

As of September 30, 2011, our authorized capital stock consisted of 100,000,000 shares of stock, par value $0.001 per share, all of which is classified as common stock. Our common stock is quoted on the NASDAQ Global Select Market under the ticker symbol PNNT . There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

The last reported closing market price of our common stock on December 16, 2011 was $10.16 per share. As of September 30, 2011, we had 13 stockholders of record.

The following are our outstanding classes of securities as of September 30, 2011:

Title of Class	Amount Authorized	Amount Held by Us or for Our Account	Amount Outstanding
Common Stock, par value $0.001 per share	100,000,000		45,689,781

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common stock

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of PennantPark Investment, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to obligate us to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan, limited liability company or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding.

Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan, limited liability company or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to a proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person s willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Provisions of the Maryland General Corporation Law and our Charter and Bylaws

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified board of directors

Our board of directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes will expire in 2014, 2012, and 2013, respectively, and in each case, those directors will serve until their successors are duly elected and qualify. Beginning in 2008, upon expiration of their current terms, directors of each class have been or are elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

Election of directors

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

Number of directors; vacancies; removal

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. We have elected to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by stockholders

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting (unless the charter provides for stockholder action by less than unanimous consent, which our charter does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance notice provisions for stockholder nominations and stockholder proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of special meetings of stockholders

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of extraordinary corporate action; amendment of charter and bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The continuing directors are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

No appraisal rights

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

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Control share acquisitions

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquirer crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future to the extent permitted by the 1940 Act.

Business combinations

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation s shares; or

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- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has ad