PENNANTPARK INVESTMENT CORP
Form 497
January 18, 2013
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Filed Pursuant to Rule 497
File No. 333-172524

Prospectus Supplement

To the Prospectus dated January 6, 2012

$67,500,000

6.25% Senior Notes due 2025

We are offering for sale $67,500,000 in aggregate principal amount of 6.25% senior notes due 2025, which we refer to as the Notes. The Notes will mature on February 1, 2025. We will pay interest on the Notes on February 1, May 1, August 1 and November 1 of each year, beginning on May 1, 2013. We may redeem the Notes in whole or in part at any time or from time to time on or after February 1, 2016 at the redemption price discussed under the caption Specific Terms of the Notes and the Offering Optional redemption in this prospectus supplement. The Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

The Notes will be our direct senior unsecured obligations and rank *pari passu* with future unsecured unsubordinated indebtedness issued by PennantPark Investment Corporation. We intend to list the Notes on the New York Stock Exchange and we expect trading in the Notes on the New York Stock Exchange to begin within 30 days of the original issue date. The Notes are expected to trade flat. This means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not included in the trading price. Currently, there is no public market for the Notes.

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 leverage. Before buying any of our Notes, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page S-16 of the this prospectus supplement and 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 Note	Total
Public offering price	100.00%	$ 67,500,000
Underwriting discounts and commissions (sales load)	3.00%	$ 2,025,000
Proceeds to PennantPark Investment Corporation (before estimated expenses of $300,000)	97.00%	$ 65,475,000

The underwriters may also purchase up to an additional $10,125,000 aggregate principal amount of Notes from us at the public offering price, less the underwriting discounts, within 30 days from the date of this prospectus supplement to cover overallotments, if any. If the underwriters exercise this option in full, the total public offering price will be $77,625,000, the total underwriting discount and commissions (sales load) paid by us will be $2,328,750, and total proceeds, before estimated expenses, will be $75,296,250.

The public offering price set forth above does not include accrued interest, if any. Interest on the Notes will accrue from January 22, 2013.

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

Delivery of the Notes in book-entry form through The Depository Trust Company, or DTC, will be made on or about January 22, 2013.

Stifel Nicolaus Weisel **RBC Capital Markets**

Baird

Credit Suisse

Janney Montgomery Scott

Ladenburg Thalmann & Co. Inc.

Stephens Inc.

Sterne Agee

The date of this prospectus supplement is January 16, 2013.

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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 supplement. 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 SUPPLEMENT

PROSPECTUS

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SPECIFIC TERMS OF THE NOTES AND THE OFFERING

This prospectus supplement sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes in the accompanying prospectus under the heading Description of Our Debt Securities before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing the Notes.

Issuer	PennantPark Investment Corporation, or we, us, our or Company
Title of the securities	6.25% Senior Notes due 2025
Initial aggregate principal amount being offered	$67,500,000
Overallotment option	The underwriters may also purchase from us up to an additional $10,125,000 aggregate principal amount of Notes to cover overallotments, if any, within 30 days of the date of this prospectus supplement under the ticker symbol PNTA.
Initial public offering price	100% of the aggregate principal amount
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in New York City as we may designate.
Type of Note	Fixed rate note
Listing	We intend to list the Notes on the New York Stock Exchange within 30 days of the original issue date.
Interest rate	6.25% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	January 22, 2013
Stated maturity date	February 1, 2025
Date interest starts accruing	January 22, 2013
Interest payment dates	Every February 1, May 1, August 1 and November 1, commencing May 1, 2013. If an interest payment date is a non-business day, the applicable interest payment will be made on the next business day, and no additional interest will accrue as a result of such delayed payment.
Interest periods	The initial interest period will be the period from and including January 22, 2013 to, but excluding May 1, 2013, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.
Regular record dates for interest	Every January 15, April 15, July 15 and October 15, commencing April 15, 2013; if a record date for interest is a non-business day, then that record date will be the next business day.
Specified currency	U.S. Dollars
Place of payment	The City of New York

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SPECIFIC TERMS OF THE NOTES AND THE OFFERING (continued)

Ranking of Notes	The Notes will be our direct unsecured obligations and will rank: - *pari passu* with future senior unsecured indebtedness; - senior to any of our future indebtedness that expressly states it is subordinated to the Notes; - effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured, but to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, approximately $145.0 million (including a $35.5 million temporary draw) of borrowings outstanding as of September 30, 2012 under our $380.0 million revolving credit facility, or the Credit Facility, to the extent of the value of the assets securing the Credit Facility; and - structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, financing vehicles or similar facilities, including our consolidated subsidiary PennantPark SBIC LP s U.S. Small Business Administration, or SBA, debentures of $150.0 million of borrowings outstanding as of September 30, 2012.
Denominations	We will issue the Notes in denominations of $25 and integral multiples of $25 in excess thereof.
Business day	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in The City of New York are authorized or required by law or executive order to close.
Optional redemption	The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after February 1, 2016, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of $25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes. Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act and the related rules, regulations and interpretations, to the extent applicable. If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940 Act, to the extent applicable. Unless we default in payment of the redemption price, on and after the date of redemption interest will cease to accrue on the Notes called for redemption.
Sinking fund	The Notes will not be subject to any sinking fund.

SPECIFIC TERMS OF THE NOTES AND THE OFFERING (continued)

Repayment at option of Holders	Holders will not have the option to have the Notes repaid prior to the stated maturity date.
Defeasance	The Notes are subject to defeasance by us.
Covenant defeasance	The Notes are subject to covenant defeasance by us.
Form of Notes	The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.
Trustee, Paying Agent, Registrar and Transfer Agent	American Stock Transfer & Trust Company, LLC
Other covenants	In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants will apply to the Notes: - We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions. - If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles, or GAAP. The lien covenant included in the form of indenture will not apply to the Notes.
Modifications to Events of Default	The following Event of Default, as described in the prospectus attached to this prospectus supplement: - we do not pay the principal of, or any premium on, a debt security of the series within five days of its due date with respect to the Notes has been revised to read as follows: - we do not pay the principal of, or any premium on, any Note on its due date
Modifications to Remedies if an Event of Default Occurs	The following remedy if an Event of Default occurs, as described in the prospectus attached to this prospectus supplement: - If an Event of Default has occurred and has not been cured or waived, the trustee or the holders of not less than 66.66% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that services to be due and immediately payable.

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SPECIFIC TERMS OF THE NOTES AND THE OFFERING (continued)

	with respect to the Notes has been revised to read as follows: - If an Event of Default has occurred and has not been cured or waived, the trustee or the holders of not less than 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that services to be due and immediately payable.
Modifications to Merger or Consolidation	The following conditions that must be met for us to consolidate or merge with another entity or to sell all or substantially all of our assets to another entity, as described in the prospectus attached to this prospectus supplement: - if we do not survive such transaction or we convey, transfer or lease our properties and assets substantially as an entirety, the acquiring company must be a corporation, limited liability company, partnership or trust, or other corporate form, organized under the laws of any state of the United States or the District of Columbia, any country comprising the European Union, the United Kingdom or Japan and such company must agree to be legally responsible for our debt securities, and, if not already subject to the jurisdiction of any state of the United States or the District of Columbia, the new company must submit to such jurisdiction for all purposes with respect to the debt securities and appoint an agent for service of process; - alternatively, we must be the surviving company; with respect to the Notes have been revised to read as follows: - where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities;
Modifications to Changes Requiring Your Approval	In addition to the changes that cannot be made without your specific approval, as described in the prospectus attached to this prospectus supplement, the following change cannot be made without your specific approval: - adversely affect any right of repayment at the holder s option. The following change that cannot be made without your specific approval, as described in the prospectus attached to this prospectus supplement: - at any time after a change of control has occurred, reduce the premium payable upon a change of control does not apply to the Notes.
Global Clearance and Settlement Procedures	Interests in the Notes will trade in DTC s Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the Trustee or the Paying Agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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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. References to our portfolio and investments include investments we make through our consolidated subsidiaries. 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 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 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 million to $50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion. 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 six 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.

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As of September 30, 2012, our portfolio totaled $990.5 million and consisted of $291.7 million of senior secured loans, $191.3 million of second lien secured debt, $400.7 million of subordinated debt and $106.8 million of preferred and common equity investments. Our debt portfolio consisted of 69% fixed-rate and 31% variable-rate investments (including 26% with a London Interbank Offered Rate, or LIBOR, or prime floor). Our overall portfolio consisted of 54 companies with an average investment size of $18.3 million, a weighted average yield on debt investments of 13.2%, and was invested 30% in senior secured loans, 19% in second lien secured debt, 40% in subordinated debt and 11% 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 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, 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 fiscal year ended September 30, 2012, we purchased $328.3 million of investments issued by 13 new and 17 existing portfolio companies with an overall weighted average yield of 13.3% on debt investments. For the fiscal years ended September 30, 2011 and 2010, we purchased $479.7 million of investments issued by 17 new and 11 existing portfolio companies with an overall average yield of 13.7% on debt investments and purchased $309.5 million of investments, issued by 17 new and 12 existing portfolio companies with an overall average yield of 14.9% on debt investments, respectively.

For the fiscal year ended September 30, 2012, sales and repayments generated proceeds of $201.7 million. For the fiscal years ended September 30, 2011 and 2010, sales and repayments generated proceeds of $304.0 million and $145.2 million, respectively.

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 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 SBIC 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, invests with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing what we believe is 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,

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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 should provide 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 over $1.5 billion in debt and equity capital and has invested over $2.1 billion in more than 200 companies with over 100 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 effects the determination and publication of our net asset value, oversees the preparation and filing of our tax returns and, 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 us.

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 maturing loans that seek 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 our 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 this approach continues 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 Selection Criteria in this prospectus supplement and 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.

Investment Selection Criteria

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

We have identified several criteria, 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, relationships, and access to market information to identify investment candidates and to structure investments efficiently and effectively.

a. 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.

b. Experienced management and established financial sponsor relationships

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.

c. Strong and defensible competitive market positions

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.

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d. 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, refinancing or other capital market transaction.

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance 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, 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.

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 Credit Facility which matures in February 2016 and is secured by substantially all of our investment portfolio assets (excluding the assets of SBIC LP), under which we had $145.0 million (including a $35.5 million temporary draw) and $240.9 million of debt outstanding with a weighted average interest rate of 3.49% and 1.27% at September 30, 2012 and 2011 exclusive of the fee on undrawn commitments of 0.50% and 0.20%, respectively. Pricing of borrowings under our current Credit Facility is set at 275 basis points over LIBOR. As of September 30, 2012 and 2011, we had $235.0 million and $74.1 million, respectively, available to us under our Credit Facility. 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 market conditions, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility.

As of September 30, 2012 and 2011, 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% inclusive of the upfront fees), and had no remaining borrowing capacity. 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 in the accompanying prospectus for more information.

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.

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Operating and Regulatory Structure

Our investment activities are managed by PennantPark Investment Advisers and are 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.

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.

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 their 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 or strategic purposes. See Use of Proceeds in this prospectus supplement for information regarding our outstanding borrowings as of September 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.

Recent Developments

On October 25, 2012, we sold an additional 700,000 shares of common stock at a public offering price of $10.82 per share generating gross proceeds of approximately $7.6 million and net proceeds of approximately $7.3 million after underwriting discounts and offering expenses payable by us, from the underwriters partial exercise of the option to purchase additional shares we granted to them in connection with the offering of 9,000,000 shares of common stock that closed on September 28, 2012.

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Ratio of Earnings to Fixed Charges

For the years ended September 30, 2012, 2011, 2010, 2009 and 2008, our ratios of earnings to fixed charges were 5.4, 1.9, 4.5, 7.7 and (6.5), respectively. See Ratio of Earnings to Fixed Charges in this prospectus supplement 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.

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. The following is an illustrative list of the industries in which the Investment Adviser has invested:

Aerospace and Defense	Environmental Services
Auto Sector	Financial Services
Beverage, Food and Tobacco	Grocery
Broadcasting and Entertainment	Healthcare, Education and Childcare
Buildings and Real Estate	Home & Office Furnishings, Housewares & Durable Consumer Products
Business Services	Hotels, Motels, Inns and Gaming
Cable Television	Insurance

Cargo Transportation	Leisure, Amusement, Motion Picture, Entertainment
Chemicals, Plastics and Rubber	Logistics
Communications	Manufacturing/Basic Industries
Consumer Products	Media
Containers Packaging & Glass	Mining, Steel, Iron and Non-Precious Metals
Distribution	Oil and Gas
Diversified/Conglomerate Manufacturing	Other Media
Diversified/Conglomerate Services	Personal, Food and Miscellaneous Services
Diversified Natural Resources, Precious Metals and Minerals	Printing and Publishing
Education	Retail Stores
Electronics	Telecommunications
Energy/Utilities	

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Listed below are our top ten portfolio companies and industries represented as a percentage of our consolidated portfolio assets (excluding cash equivalents) as of September 30, 2012 and 2011:

Portfolio Company	2012	Portfolio Company	2011
Last Mile Funding, Corp. (3 PD, Inc.)	5%	Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)	6%
Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)	5%	Last Mile Funding Corp. (3PD, Inc.)	5%
LTI Flexible Products, Inc.	4%	Pre-Paid Legal Services, Inc.	5%
New Service Champ Holdings, Inc. (Service Champ Inc.)	4%	Kadmon Pharmaceuticals LLC (f/k/a Three River Pharmaceuticals LLC)	4%
Pre-Paid Legal Services, Inc.	4%	Learning Care Group, Inc.	4%
American Gilsonite Company	3%	LTI Flexible Products, Inc.	4%
Brand Energy and Infrastructure Services, Inc.	3%	Veritext Corporation	4%
Learning Care Group, Inc.	3%	Instant Web, Inc.	3%
Penton Media, Inc.	3%	Penton Media, Inc.	3%
Prince Mineral Holdings Corp.	3%	Prince Mineral Holdings Corp.	3%

Industry	2012	Industry	2011
Healthcare, Education & Childcare	8%	Business Services	11%
Electronics	7%	Healthcare, Education & Childcare	10%
Energy/Utilities	7%	Energy/Utilities	9%
Auto Sector	6%	Cargo Transport	6%
Business Services	6%	Chemicals, Plastics and Rubber	6%
Cargo Transport	6%	Consumer Products	5%
Chemicals, Plastics and Rubber	5%	Oil and Gas	5%
Consumer Products	5%	Personal, Food and Miscellaneous Services	5%
Distribution	4%	Printing and Publishing	5%
Personal, Food and Miscellaneous Services	4%	Aerospace and Defense	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 and PennantPark Credit Opportunities Fund, L.P., a private investment fund. Accordingly, they may have obligations to investors in 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 in the accompanying prospectus.

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

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investment company provided in Section 3(c) of the 1940 Act. We may also co-invest in the future on a concurrent basis with our affiliates, 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.

Risk Factors

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. See Risk Factors beginning on page S-16 in this prospectus supplement and beginning on page 8 of the accompanying prospectus, and the other information included in the accompanying prospectus, for additional discussion of factors you should carefully consider before deciding to invest in the Notes.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, including Management s Discussion and Analysis of Financial Condition and Results of Operations, 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 Company, 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 prospectus 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 and our portfolio companies;
- 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;
- the ability of our Investment Adviser to locate suitable investments for us and to monitor and administer our investments; and
- the impact of future legislation and regulation on our business and our portfolio companies.

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 influence 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 this prospectus supplement and elsewhere in the accompanying prospectus entitled Risk Factors.

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 through reports that we 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.

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 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.

RISK FACTORS

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

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

The Notes will not be secured by any of our assets or any of the assets of our subsidiaries. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of September 30, 2012, we had $145.0 million (including a $35.5 million temporary draw) outstanding under the Credit Facility. The Credit Facility is secured by substantially all of the assets in our portfolio (other than assets held by SBIC LP), and the indebtedness under the Credit Facility is therefore effectively senior in right of payment to the Notes to the extent of the value of such assets.

The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The Notes are obligations exclusively of PennantPark Investment Corporation and not of any of our subsidiaries. None of our subsidiaries are or act as a guarantor of the Notes and the Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Our secured indebtedness with respect to the SBA debentures is held through our wholly owned subsidiary SBIC LP. The assets of any such subsidiary are not directly available to satisfy the claims of our creditors, including holders of the Notes.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes will be structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiary and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. As of September 30, 2012, SBIC LP had $150.0 million of SBA debentures outstanding. All of such indebtedness would be structurally senior to the Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

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The indenture under which the Notes will be issued will contain limited protection for holders of the Notes.

The indenture under which the Notes will be issued offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore would rank structurally senior to the Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our subsidiaries and therefore would rank structurally senior in right of payment to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes;

- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

- enter into transactions with affiliates;

- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

- make investments; or

- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity, except as required under the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. See Risk Factors Risks Relating to Our Business and Structure including Risk Factors Risks Relating to Our Business and Structure 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 the accompanying prospectus for more information. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

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An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them. If a rating agency assigns the Notes a non-investment grade rating, the Notes may be subject to greater price volatility than similar securities without such a rating.

The Notes are a new issue of debt securities for which currently there is no trading market. Although we expect to list the Notes on the New York Stock Exchange within 30 days of the original issue date, we cannot provide any assurances that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. If a rating agency assigns the Notes a non-investment grade rating, the Notes may be subject to greater price volatility than securities of similar maturity without such a non-investment grade rating. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

FATCA withholding may apply to payments to certain foreign entities.

Payments made under the Notes to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) may be subject to a U.S. withholding tax of 30% under a law (commonly known as FATCA) that was enacted in 2010. This tax may apply to certain payments of interest as well as payments made upon maturity, redemption, or sale of the Notes, unless the foreign financial institution or non-financial foreign entity complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. You should consult your own tax advisors regarding FATCA and how it may affect your investment in the Notes. See Certain U.S. Federal Income Tax Considerations for more information.

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USE OF PROCEEDS

We estimate that net proceeds we will receive from the sale of the $67.5 million aggregate principal amount of the Notes in this offering will be approximately $65.2 million (or approximately $75.0 million if the underwriters fully exercise their overallotments), in each case based on a public offering price of 100% of par, after deducting the underwriting discounts and commissions of approximately $2.0 million (or approximately $2.3 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately $300,000 payable by us.

We expect to 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 September 30, 2012, we had $235.0 million of unused borrowing capacity, subject to maintenance of the applicable ratio of total assets to debt test as defined under the 1940 Act, and $145.0 million (including a $35.5 million temporary draw) 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. At September 30, 2012, we had a weighted average interest rate on our Credit Facility at the time of 3.49%. 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 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 September 30, 2012 (1) on an actual basis and (2) on an as-adjusted basis to reflect the effects of the sale of $67,500,000 aggregate principal amount of Notes in this offering based on a public offering price of 100% of par, after deducting the underwriting discounts and commissions of $2,025,000 payable by us and estimated offering expenses of approximately $300,000 payable by us. 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 for more information. 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 September 30, 2012 (unaudited)	
	Actual	**As adjusted for the offering(1)**
Cash equivalents	$ 7,559,453	$ 72,734,453(2)
Total assets	1,018,967,531	1,018,967,531
Borrowings under the Credit Facility (cost $145,000,000)	144,452,500	144,452,500
Borrowings under SBA debentures (cost $150,000,000)	150,000,000	150,000,000
Notes (cost $67,500,000)		67,500,000
Stockholders Equity		
Common stock, 65,514,503 shares are issued and outstanding. Par value is $0.001 per share and 100,000,000 shares are authorized.	65,514	65,514
Paid in capital in excess of par value	744,704,825	744,704,825
Undistributed net investment income	2,804,397	479,397
Accumulated net realized loss on investments	(60,273,037)	(60,273,037)
Net unrealized depreciation on investments	(18,132,152)	(18,132,152)
Net unrealized depreciation on Credit Facility	547,500	547,500
Total stockholders equity	669,717,047	667,392,047
Total capitalization	$ 964,169,547	$ 1,029,344,547

(1) Does not include the underwriters overallotment option for this offering nor the 700,000 shares issued on October 25, 2012 at the public offering price of $10.82 per share and any shares issued pursuant to our dividend reinvestment plan.

(2) Assumes the net proceeds from this offering are invested in cash equivalents. You should read this table together with Use of Proceeds set forth in this prospectus supplement and in the accompanying prospectus for more information.

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RATIO OF EARNINGS TO FIXED CHARGES

For the years ended September 30, 2012, 2011, 2010, 2009 and 2008, the ratios of earnings to fixed charges of ours computed as set forth below, were as follows:

Dollars in thousands	For the Fiscal Years Ended September 30,				
	2012	2011	2010	2009	2008
Earnings[(1)]					
Net investment income (after taxes)	$ 57,069	$ 52,645	$ 32,075	$ 22,719	$ 18,556
Add: Net realized (losses) gains on investments	(12,798)	16,260	(15,417)	(39,244)	(11,155)
Add: Net change in unrealized appreciation (depreciation)	19,082	(58,641)	(122)	52,327	(48,104)
Total Earnings	$ 63,353	$ 10,263	$ 16,535	$ 35,802	$ (40,703)
Fixed Charges[(2)]					
Interest and expenses on the Credit Facility and SBA Debentures	$ 11,681	$ 5,322	$ 3,672	$ 4,629	$ 6,309
Total Fixed Charges	$ 11,681	$ 5,322	$ 3,672	$ 4,629	$ 6,309
Ratio of Earnings to Fixed Charges	5.4	1.9	4.5	7.7	(6.5)[(3)]
Ratio of Net Investment Income to Fixed Charges	4.9	9.9	8.7	4.9	2.9

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

(2) Fixed charges include interest and related expenses on our Credit Facility, which is indexed to LIBOR and fluctuate with changes in interest rates, and SBA debentures and amortization of debt issuance costs on our SBA debentures.

(3) The Company would need to generate additional earnings of $47,012 to achieve a coverage ratio of one-to-one for the year ended September 30, 2008.

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SELECTED FINANCIAL DATA

We have derived the financial information below from our audited financial data 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, 2012, 2011, 2010, 2009 and 2008 are derived from our Consolidated Financial Statements which have been audited by KPMG LLP, an 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 this prospectus supplement and in the accompanying prospectus.

	For the Years Ended September 30,				
	2012	**2011**	**2010**	**2009**	**2008**
(Dollar amounts in thousands, except per share data)					
Consolidated Statement of Operations data:					
Total investment income	$ 113,392	$ 91,738	$ 60,140	$ 45,119	$ 39,811
Net expenses	56,323	39,093	28,065	22,400	21,255
Net investment income	57,069	52,645	32,075	22,719	18,556
Net realized and unrealized gain (loss)	6,284	(42,382)	(15,539)	13,083	(59,259)
Net increase(decrease) in net assets resulting from operations	63,353	10,263	16,535	35,802	(40,703)
Per share data:					
Net asset value (at year end)	10.22	10.13	10.69	11.85	10.00
Net investment income[(1)]	1.08	1.25	1.09	1.08	0.88
Net realized and unrealized gain (loss)[(1)]	0.12	(1.01)	(0.53)	0.62	(2.81)
Net increase (decrease) in net assets resulting from operations[(1)]	1.20	0.24	0.56	1.70	(1.93)
Distributions declared[(1),(2)]	1.13	1.10	1.09	0.96	0.90
Consolidated Statement of Assets and Liabilities data:					
Total assets	1,018,968	928,738	711,494	512,381	419,811
Total investment portfolio	990,480	827,549	664,724	469,760	372,148
Borrowings outstanding[(3)]	294,452	388,792	233,641	175,475	202,000
Payable for investments purchased and unfunded investments	26,935	55,705	74,988	25,821	
Total net asset value	669,717	462,657	386,575	300,580	210,728
Other data:					
Total return[(4)]	28.71%	(7.37)%	44.79%	30.39%	(38.58)%
Number of portfolio companies (at year end)[(5)]	54	48	43	42	37
Yield on debt portfolio (at year end)[(5)]	13.2%	13.3%	12.7%	11.4%	11.1%

(1) Based on the weighted average shares outstanding for the respective years.
(2) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under GAAP.
(3) At fair value in the case of our Credit Facility (except for 2008).
(4) 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.
(5) Unaudited.

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Selected Quarterly Data (Unaudited)

(dollar amounts in thousands, except per share data)

	2012			
	Q4	**Q3**	**Q2**	**Q1**
Total investment income	$ 30,806	$ 29,385	$ 26,362	$ 26,839
Net investment income	$ 16,742	$ 15,571	$ 9,759	$ 14,997
Net realized and unrealized gain (loss)	$ 948	$ (12,151)	$ 16,638	$ 849
Net increase in net assets resulting from operations	$ 17,690	$ 3,420	$ 26,397	$ 15,846
Net increase in net assets resulting from operations per common share	$ 0.31	$ 0.06	$ 0.50	$ 0.34
Net asset value per share at the end of the quarter	$ 10.22	$ 10.16	$ 10.38	$ 10.19
Market value per share at the end of the quarter	$ 10.61	$ 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	$ 0.27	$ 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)
Net increase in net assets resulting from operations 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

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 million to $50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term middle-market to refer to companies with annual revenues between $50 million and $1 billion. 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 several 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 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 federal income tax purposes we intend to continue to be treated and qualify annually as a RIC 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. SBIC LP s investment management agreement does not affect the management and incentive fees on

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a consolidated basis. We have also entered into 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. 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. Capital gains, if any, are recorded on a trade date basis on investments held in our portfolio. 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 and 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 amendment, commitment, original issue discount, or OID, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees.

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;

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 September 30, 2012, our portfolio totaled $990.5 million and consisted of $291.7 million of senior secured loans, $191.3 million of second lien secured debt, $400.7 million of subordinated debt and $106.8 million of preferred and common equity investments. Our debt portfolio consisted of 69% fixed-rate and 31% variable-rate investments (including 26% with a LIBOR or prime floor). As of September 30, 2012, we had one non-accrual debt investment, representing 3.2% and 1.1% of our overall portfolio on a cost basis and fair value, respectively. Our overall portfolio consisted of 54 companies with an average investment size of $18.3 million, had a weighted average yield on debt investments of 13.2%, and was invested 30% in senior secured loans, 19% in second lien secured debt, 40% in subordinated debt and 11% 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 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 fiscal year ended September 30, 2012, we purchased $328.3 million of investments in 13 new and 17 existing portfolio companies with a weighted average yield of 13.3% on debt investments. This compares to purchasing $479.7 million in 17 new and 11 existing portfolio companies with an overall weighted average yield of 13.7% on debt investments, and purchasing $309.5 million in 17 new and 12 existing portfolio companies with an overall weighted average yield of 14.9% on debt investments for the fiscal years ended September 30, 2011 and 2010, respectively.

For the fiscal year ended September 30, 2012, sales and repayments generated proceeds of $201.7 million. For the fiscal years ended September 30, 2011 and 2010, sales and repayments generated proceeds of $304.0 million and $145.2 million, respectively.

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 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. 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.

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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 in the absence of any unusual events that may indicate such basis for deriving fair value is no longer valid.

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

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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. A review of fair value hierarchy classifications in conducted on a quarterly basis.

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.

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. Due to that election and in accordance with GAAP, we incurred up-front fees of $5.4 million which represents transaction costs and expenses related to the amended 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 fiscal year ended September 30, 2012 and 2011, our Credit Facility had a net change in unrealized appreciation of $1.6 million and $11.9 million, respectively. As of September 30, 2012 and 2011, net unrealized depreciation on our Credit Facility totaled $0.5 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 our investments.

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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, OID, 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, using the effective interest method. We record contractual 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.

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 net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. 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 net ordinary income for the calendar year, (2) 98.2% of the sum of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) the sum of any net ordinary income plus 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 net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or net 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 our results of operations for the fiscal years ended September 30, 2012, 2011 and 2010.

Investment Income

Investment income for the fiscal year ended September 30, 2012 was $113.4 million and was primarily attributable to $42.8 million from senior secured loan investments, $21.2 million from second lien secured debt investments, and $49.4 million from subordinated debt investments. The increase in investment income over the prior year was due to the growth of our portfolio which was also driven by the investment of the proceeds from our equity offerings.

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 the 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 primarily 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.

Expenses

Expenses for the fiscal year ended September 30, 2012 totaled $56.3 million. Base management fees for the same period totaled $17.5 million, performance-based incentive fee totaled $14.2 million, Credit Facility and SBA debentures related expenses totaled $17.1 million (including the $5.4 million upfront fees associated with amending and extending our Credit Facility), general and administrative expenses totaled $7.2 million and an excise tax of $0.3 million was incurred. The increase in expenses over the prior year was primarily due to the upfront costs of amending our Credit Facility, increased borrowing costs and the growth of our portfolio.

Expenses for the fiscal year ended September 30, 2011 totaled $39.1 million. Base management fees 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 the result of the growth of our portfolio as well as increased borrowing costs.

Expenses for the fiscal year ended September 30, 2010 totaled $28.0 million. Base management fees 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.

Net Investment Income

Net investment income totaled $57.1 million, or $1.08 per share, $52.6 million, or $1.25 per share and $32.1 million, or $1.09 per share, for the fiscal years ended September 30, 2012, 2011 and 2010, respectively. The increase in net investment income from 2011 to 2012 was the result of the growth of our portfolio, while the per share net investment income decrease was the result of share issuances.

Net Realized Gains or Losses

Sales and repayments of long-term investments for the fiscal years ended September 30, 2012, 2011 and 2010 totaled $201.7 million, $304.0 million and $145.2 million, respectively, and net realized gains (losses) totaled $(12.8) million, $16.3 million and $(15.4) million, respectively. Net realized losses increased over the prior year due to sales, restructurings, 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 $20.6 million, $(46.8) million and $35.5 million for the fiscal years ended September 30, 2012, 2011 and 2010, respectively. Net change in unrealized (appreciation) depreciation on our Credit Facility totaled $(1.6) million, $(11.9) million and $(35.7) million for the same periods, respectively. Net change in unrealized depreciation on investments increased over the prior year due to the overall changes in the leveraged finance markets. Net change in unrealized depreciation on our Credit Facility over the prior year is the result of amending and restating the terms of our Credit Facility.

Net Increase in Net Assets Resulting From Operations

Net increase in net assets resulting from operations totaled $63.4 million, or $1.20 per share, $10.3 million, or $0.24 per share, and $16.5 million, or $0.56 per share for the fiscal years ended September 30, 2012, 2011 and 2010, respectively. The net increase in net assets from operations was higher than the prior year due to the continued growth in net investment income as a result of growing our portfolio and unrealized gains offset by realized losses.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived primarily from proceeds of security offerings, 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.

In February 2012, we amended and restated our multi-currency Credit Facility, which increased the size of the Credit Facility to $380 million, with certain lenders and SunTrust Bank, acting as administrative agent and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of September 30, 2012 and 2011, there were $145.0 million (including a temporary draw of $35.5 million) and $240.9 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.49% 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 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. As of September 30, 2012 and 2011, we had $235.0 million and $74.1 million of unused borrowing capacity, respectively, subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC LP.

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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 September 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, 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 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 or strategic purposes.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that our asset coverage ratio is met after such borrowing. As of September 30, 2012, we excluded the principal amounts of our SBA debentures, from our asset coverage ratio pursuant to an SEC exemptive relief resulting in an asset coverage ratio of 564%. As a result of this exemptive relief, our asset coverage ratio of total assets on a consolidated basis, including the principal amount of our SBA debentures, 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 fiscal year ended September 30, 2012 we sold 19.4 million shares of common stock, resulting in net proceeds of $198.9 million. On September 28, 2012, we raised net proceeds of $93.6 million from selling 9.0 million shares. This compares to selling 9.2 million shares of our common stock resulting in net proceeds of $108.3 million for the fiscal year ended September 30, 2011. 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. As of September 30, 2012, we 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 date, 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.

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As of September 30, 2012 and 2011, our $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 September 30, 2012 and 2011 are as follows:

Issuance Dates	Maturity	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 September 30, 2012, SBIC LP was in compliance with all SBA 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 asset coverage ratio.

Our operating activities used cash of $115.3 million for the fiscal year ended September 30, 2012, and our financing activities provided cash proceeds of $51.3 million for the same period. Our operating activities used cash primarily for investing that was provided primarily from proceeds from our follow-on public offerings of common stock.

Our operating activities used cash of $137.8 million for the fiscal year ended September 30, 2011, and our financing activities provided 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.

Our operating activities used cash of $127.1 million for the fiscal year ended September 30, 2010, and our financing activities provided cash proceeds of $95.6 million for the same period, primarily from proceeds from a 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.

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Contractual Obligations

A summary of our significant contractual payment obligations as of September 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	$ 145.0	$	$	$ 145.0	$
SBA debentures	150.0				150.0
Total debt outstanding[1]	295.0			145.0	150.0
Unfunded investments[2]	26.9	0.1	26.3		0.5
Total contractual obligations	$ 321.9	$ 0.1	$ 26.3	$ 145.0	$ 150.5

(1) The weighted average interest rate on the total debt outstanding as of September 30, 2012 was 3.60% 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.

(2) 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, PennantPark Investment Advisers 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.

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Dividends and 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 net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. 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 net 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 net 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 net 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 fiscal years ended September 30, 2012, 2011, and 2010, we elected to retain a portion of our calendar year income and incurred an excise tax of approximately $0.3 million, $0.2 million and $0.1 million, respectively.

During the fiscal year ended September 30, 2012, 2011 and 2010, we declared dividends of $1.12, $1.07 and $1.03 per share, respectively, for total dividends of $60.1 million, $46.3 million and $32.3 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes may occur for the taxable year. To the extent our taxable earnings fall below the total amount of our distributions for any given taxable 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.

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 ratio 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 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.

Recent Developments

On October 25, 2012, we sold an additional 700,000 shares of common stock at a public offering price of $10.82 per share generating gross proceeds of approximately $7.6 million and net proceeds of approximately $7.3 million after underwriting discounts and offering expenses payable by us, from the underwriters partial exercise of the option to purchase additional shares we granted to them in connection with the offering of 9,000,000 shares of common stock that closed on September 28, 2012.

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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 September 30, 2012, our debt portfolio consisted of 69% fixed- rate and 31% variable-rate investments (including 26% with a LIBOR or prime floor). The variable-rate loans are usually based on a 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 we benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates.

Assuming that the most recent statement of assets and liabilities 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 as well as our level of leverage. 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 or net assets.

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

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SENIOR SECURITIES

Information about our senior securities is shown in the following table as of September 30, 2012, 2011, 2010, 2009, and 2008 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 2012[(5)]	$ 145,000	$ 5,615	N/A	N/A
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

(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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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of certain United States, or U.S., federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), certain United States federal estate tax consequences) applicable to the ownership and disposition of the Notes. This summary does not purport to be a complete description of the income tax considerations applicable to an investment in the Notes. The discussion is based upon the Code, Treasury Regulations, and administrative and judicial interpretations, each as of the date of this prospectus supplement and all of which are subject to change, potentially with retroactive effect. You should consult your own tax advisor with respect to tax considerations that pertain to your ownership and disposition of our Notes.

This discussion deals only with Notes held as capital assets within the meaning of Section 1221 of the Code and does not purport to deal with persons in special tax situations or subject to special rules, such as financial institutions, insurance companies, controlled foreign corporations, passive foreign investment companies and regulated investment companies (and shareholders of such corporations), dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the Notes as a hedge against currency risks or as a position in a straddle, hedge, constructive sale transaction or conversion transaction for tax purposes, entities that are tax-exempt for United States feder income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for United States federal income tax purposes) and beneficial owners of pass-through entities, or U.S. holders (as defined below) whose functional currency is not the U.S. dollar. It also does not deal with beneficial owners of the Notes other than those beneficial owners who acquire the Notes in this offering for a price equal to their original issue price (i.e., the first price at which a substantial amount of the notes is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). If you are considering purchasing the Notes, you should consult your own tax advisor concerning the application of the United States federal tax laws to you in light of your particular situation, as well as any consequences to you of purchasing, owning and disposing of the Notes under the laws of any other taxing jurisdiction.

For purposes of this discussion, the term U.S. holder means a beneficial owner of a Note that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) a trust (a) subject to the control of one or more United States persons and the primary supervision of a court in the United States, or (b) that has a valid election (under applicable Treasury Regulations) to be treated as a United States person for U.S. federal income tax purposes, or (iv) an estate the income of which is subject to United States federal income taxation regardless of its source. The term non-U.S. holder means a beneficial owner of a Note that is neither a U.S. holder nor a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes). An individual may, subject to exceptions, be deemed to be a resident of the United States for U.S. federal income tax purposes, as opposed to a non-resident alien, by, among other ways, being present in the United States (i) on at least 31 days in the calendar year, and (ii) for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Individuals who are residents for such purposes are subject to United States federal income tax as if they were United States citizens.

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the United States federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partners of partnerships holding Notes should consult their own tax advisors.

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Taxation of Note Holders

Taxation of U.S. holders. Payments or accruals of interest on a Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder s regular method of tax accounting. In general, if the terms of a debt instrument entitle a holder to receive payments (other than fixed periodic interest) that exceed the issue price of the instrument by more than a statutory de minimis amount, the holder will be required to recognize additional interest as original issue discount over the term of the instrument, irrespective of the holder s regular method of tax accounting. We expect that the Notes will not be issued with original issue discount for U.S. federal income tax purposes.

Upon the sale, exchange, redemption or retirement of a Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (excluding any amounts representing accrued and unpaid interest, which are treated as ordinary income) and the U.S. holder s tax basis in the Note. A U.S. holder s tax basis in a Note generally will equal the amount of the U.S. holder s initial investment in the Note. Capital gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation (currently, a rate of either 15% or 20%, depending on whether the U.S. holder s income exceeds certain threshold amounts). The distinction between capital gain or loss and ordinary income or loss is also important in other contexts, such as, for example, for purposes of the limitations on a U.S. holder s ability to offset capital losses against ordinary income.

Newly enacted legislation generally requires certain non-corporate U.S. holders to pay a 3.8% Medicare tax on, among other things, interest on and capital gains from the sale, exchange, redemption or retirement of the Notes. This legislation applies for taxable years beginning after December 31, 2012. U.S. holders should consult their own tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the Notes.

Taxation of Non-U.S. Holders. A non-U.S. holder generally will not be subject to United States federal income or withholding taxes on payments of principal or interest on a Note provided that in the case of interest on a Note (i) the interest is not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, (ii) the non-U.S. holder is not a controlled foreign corporation related to the Company through sufficient stock ownership, (iii) the recipient is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, (iv) the non-U.S. holder does not own (actually or constructively) 10% or more of the total combined voting power of all classes of stock of the Company, and (v) the non-U.S. holder provides to the applicable withholding agent a statement on an Internal Revenue Service, or IRS, Form W-8BEN (or other applicable form) signed under penalties of perjury that includes its name and address and certifies that it is not a United States person in compliance with applicable requirements, or satisfies documentary evidence requirements for establishing that it is a non-U.S. holder.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to withholding of United States federal income tax on payments of interest on the Notes at a rate of 30% unless (i) the interest is effectively connected with the conduct of a United States trade or business, in which case the interest will be subject to United States federal income tax on a net income basis as applicable to U.S. holders generally (unless an applicable income tax treaty provides otherwise), or (ii) an applicable income tax treaty provides for a lower rate of, or exemption from, this withholding. In the case of a non-U.S. holder that is a corporation for U.S. federal income tax purposes and that receives income that is effectively connected with the conduct of a United States trade or business, such income may also be subject to a branch profits tax (which is generally imposed on a non-U.S. corporation on the actual or deemed repatriation from the United States of earnings and profits attributable to a United States trade or business) at a 30% rate. The branch profits tax may not apply (or may apply at a reduced rate) if the non-U.S. holder is a qualified resident of a country with which the United States has an income tax treaty.

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To claim the benefit of an income tax treaty or to claim exemption from withholding because interest is effectively connected with a United States trade or business, the non-U.S. holder must timely provide the appropriate, properly executed IRS forms to the applicable withholding agent.

Generally, a non-U.S. holder will not be subject to United States federal income or withholding taxes on any amount that constitutes capital gain upon the sale, exchange, redemption or retirement of a Note, provided the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S. holder (and, if required by an applicable income tax treaty, is not attributable to a United States permanent establishment maintained by the non-U.S. holder). Certain other exceptions may be applicable, and a non-U.S. holder should consult its tax advisor in this regard.

A Note that is held by an individual who, at the time of death, is not a citizen or resident of the United States (as specially defined for United States federal estate tax purposes) generally will not be subject to the United States federal estate tax, unless, at the time of death, (i) such individual directly or indirectly, actually or constructively, owns ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and the Treasury Regulations thereunder or (ii) such individual s interest in the Notes is effectively connected with the individual s conduct of a United States trade or business.

Information Reporting and Backup Withholding. A U.S. holder (other than an exempt recipient, including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding at a rate of 28% on, and will be subject to information reporting requirements with respect to, payments of principal or interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes. In general, if a non-corporate U.S. holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding at the applicable rate may apply.

If you are a non-U.S. holder, generally, the applicable withholding agent must report to the IRS and to you payments of interest on the Notes and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which you reside under the provisions of a treaty or agreement. In general, backup withholding will not apply to payments of interest on your Notes if you have provided to the applicable withholding agent the required certification that you are not a U.S. person and the applicable withholding agent does not have actual knowledge or reason to know that you are a U.S. person. Information reporting and, depending on the circumstances, backup withholding will apply to payment to you of the proceeds of a sale or other disposition (including a retirement or redemption) of your Notes within the United States or conducted through certain U.S.-related financial intermediaries, unless you certify under penalties of perjury that you are not a U.S. person or you otherwise establish an exemption, and the applicable withholding agent does not have actual knowledge or reason to know that you are a U.S. person.

You should consult your own tax advisor regarding the application of information reporting and backup withholding in your particular circumstance and the availability of and procedure for obtaining an exemption from backup withholding. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against your U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

FATCA Withholding on Payments to Certain Foreign Entities. Sections 1471 through 1474 of the Code (provisions commonly referred to as FATCA) impose a 30% withholding tax on payments of U.S. source interest, and gross proceeds from the sale, redemption, retirement or other disposition of obligations that give rise to U.S. source interest payments, in each case to a foreign financial institution (for example, a clearing system, custodian, nominee or broker) or to a non-financial foreign entity, including such an institution or entity acting as an intermediary, unless (a) the foreign financial institution enters into an agreement with the U.S. Treasury under

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which it agrees to (i) collect and report to the IRS information regarding such institution s U.S. account holders (which include certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) and (ii) to withhold on payments to nonparticipating foreign financial institutions and certain account holders that do not provide required information, (b) the non-financial foreign entity provides a certification or information relating to its 10% or greater U.S. owners, or (c) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. Depending on your circumstances, you may be entitled to a refund or credit in respect of some or all of this withholding. However, the refund application process has not yet been finalized.

Pursuant to administrative guidance issued by the IRS and the U.S. Treasury, FATCA withholding generally will only apply to interest payments made on or after January 1, 2014, and to payments of gross proceeds from a disposition made on or after January 1, 2017. Moreover, proposed U.S. Treasury Regulations state that FATCA withholding will generally apply to notes that are issued on or after January 1, 2013, although the final U.S. Treasury Regulations, when issued, may extend this grandfathering date.

FATCA is complex and its application to the Notes is uncertain at this time. Each prospective purchaser should consult its own tax advisor regarding FATCA and how it may affect such investor in its particular circumstances.

You should consult your own tax advisor with respect to the particular tax consequences to you of an investment in the Notes, including the possible effect of any pending legislation or proposed regulations.

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UNDERWRITING

We intend to offer the Notes through the underwriters named in the table below. Stifel, Nicolaus & Company, Incorporated and RBC Capital Markets, LLC are acting as joint bookrunners and representatives of the several underwriters. Subject to the terms and conditions described in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase from us, the aggregate principal amount of Notes set forth opposite the underwriter s name.

Underwriter Names	Aggregate Principal amount of Notes
Stifel, Nicolaus & Company, Incorporated	$ 24,300,000
RBC Capital Markets, LLC	18,900,000
Robert W. Baird & Co. Incorporated	4,050,000
Credit Suisse Securities (USA) LLC	4,050,000
Janney Montgomery Scott LLC	4,050,000
Ladenburg Thalmann & Co. Inc.	4,050,000
Stephens Inc.	4,050,000
Sterne, Agee & Leach, Inc.	4,050,000
Total	$ 67,500,000

The underwriting agreement provides that the obligations of the underwriters severally, and not jointly to purchase the Notes 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 Notes included in this offering, other than those Notes covered by the overallotment option described below, if they purchase any of the Notes. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

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

Commissions and Discounts

The underwriters have advised us that they propose initially to offer the Notes 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 1.50% of the aggregate principal amount of the Notes. The underwriters may allow, and the dealers may reallow, a discount not in excess of 1.00% of the aggregate principal amount of the Notes to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the per Note and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters overallotment option to purchase up to an additional $10.125 million aggregate principal amount of Notes.

	Per Note	Without Overallotment Option	With Option
Public offering price	100.00%	$ 67,500,000	$ 77,625,000
Underwriting discount	3.00%	$ 2,025,000	$ 2,328,750
Proceeds to PennantPark Investment Corporation (before offering expenses of $300,000)	97.00%	$ 65,475,000	$ 75,296,250

Overallotment Option

We have granted an option to the underwriters to purchase up to $10.125 million in aggregate principal amount of Notes at the public offering price less the underwriting discount solely to cover any overallotments. The underwriters may exercise this option for 30 days from the date of this prospectus supplement solely to cover any overallotments, if any. If the underwriters exercise this overallotment option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase the additional Notes 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 Notes for 30 days after the date of this prospectus supplement without first obtaining the written consent of Stifel, Nicolaus & Company, Incorporated. This lockup provision applies to the Notes and to securities convertible into or exchangeable for the Notes.

Listing

The Notes are a new issue of securities with no established trading market. We intend to list the Notes on the New York Stock Exchange. We expect trading in the Notes on The New York Stock Exchange to begin within 30 days after the original issue date. Currently there is no public market for the Notes.

Price Stabilization and Short Positions

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

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

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 Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Neither we nor any of 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 Notes. In addition, neither we nor any of 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 Notes 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 will be entitled to 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 related financial instruments 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 the 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 Notes. In addition, after the offering period for the sale of our Notes, 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 facilities. 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: Stifel, Nicolaus & Company, Incorporated is 501 N. Broadway, St. Louis, Missouri 63102 and RBC Capital Markets, LLC is Three World Financial Center, 200 Vesey Street, 8th Floor, New York, New York 10281.

Other Jurisdictions

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the Notes offered by this prospectus supplement in any jurisdiction where action for that purpose is required. The Notes offered by this prospectus supplement may not be offered or sold, directly or indirectly, nor may this prospectus supplement or any other offering material or advertisements in connection with the offer and sale of any such Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement comes are advised to inform themselves about and to observe any restriction relating to the offering and the distribution of this prospectus supplement. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of an offer to buy the Notes offered by this prospectus supplement and the accompanying prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

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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.

FINANCIAL STATEMENTS

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Management s Report on Internal Control over Financial Reporting

The management of PennantPark Investment Corporation (except where the context suggests otherwise, the terms we, us, our and PennantPark Investment refer to PennantPark Investment Corporation and its Subsidiaries) is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is a process designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

PennantPark Investment s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions recorded necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Our policies and procedures also provide reasonable assurance that receipts and expenditures are being made only in accordance with authorizations of management and the directors of PennantPark Investment, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of PennantPark Investment s internal control over financial reporting as of September 30, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework* . Based on the assessment management believes that, as of September 30, 2012, our internal control over financial reporting is effective based on those criteria.

PennantPark Investment s independent registered public accounting firm that audited the financial statements has issued an audit report on the effectiveness of our internal control over financial reporting as of September 30, 2012. This report appears on page S-50.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

We have audited the accompanying consolidated statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (the Company), including the consolidated schedules of investments as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years ended September 30, 2012, 2011 and 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of investments owned as of September 30, 2012 by correspondence with the custodians and portfolio companies or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PennantPark Investment Corporation and its Subsidiaries as of September 30, 2012 and 2011, and the results of operations and cash flows for the years ended September 30, 2012, 2011 and 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PennantPark Investment Corporation s internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control Integrated Framework* , issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 14, 2012 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

New York, New York

November 14, 2012

Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

We have audited PennantPark Investment Corporation and its Subsidiaries (the Company) internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control Integrated Framework* , issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included on page 55 of the Annual Report on Form 10-K, and Item 9A., Controls and Procedures Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PennantPark Investment Corporation and its Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control Integrated Framework,* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries, including the schedules of investments as of September 30, 2012 and 2011, and the related statements of operations, changes in net assets, and cash flows for the years ended September 30, 2012, 2011 and 2010, and our report dated November 14, 2012 expressed an unqualified opinion on those financial statements.

New York, New York

November 14, 2012

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	September 30, 2012	September 30, 2011
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost $871,867,953 and $816,078,311, respectively)	$ 871,892,745	$ 773,375,381
Non-controlled, affiliated investments, at fair value (cost $72,576,858 and $36,744,425, respectively)	80,955,257	40,673,133
Controlled, affiliated investments, at fair value (cost $64,167,051 and $13,500,100, respectively)	37,631,708	13,500,001
Total of investments, at fair value (cost $1,008,611,862 and $866,322,836, respectively)	990,479,710	827,548,515
Cash equivalents (See Note 9)	7,559,453	71,604,519
Interest receivable	14,928,862	10,878,236
Receivable for investments sold	878,204	13,118,967
Prepaid expenses and other assets	5,121,302	5,587,977
Total assets	1,018,967,531	928,738,214
Liabilities		
Distributions payable	15,824,061	12,336,241
Payable for investments purchased		18,572,499
Unfunded investments	26,935,270	37,132,151
Credit Facility payable (cost $145,000,000 and $240,900,000, respectively) (See Notes 5 and 11)	144,452,500	238,792,125
SBA debentures payable (cost $150,000,000) (See Notes 5 and 11)	150,000,000	150,000,000
Interest payable on Credit Facility and SBA debentures	854,725	687,362
Management fee payable (See Note 3)	4,791,913	4,008,054
Performance-based incentive fee payable (See Note 3)	4,206,989	3,773,829
Accrued other expenses	2,185,026	778,757
Total liabilities	349,250,484	466,081,018
Net Assets		
Common stock, 65,514,503 and 45,689,781 shares are issued and outstanding, respectively. Par value is $0.001 per share and 100,000,000 shares are authorized.	65,514	45,690
Paid-in capital in excess of par value	744,704,825	540,603,020
Undistributed net investment income (See Note 8)	2,804,397	8,326,854
Accumulated net realized loss on investments (See Note 8)	(60,273,037)	(49,651,922)
Net unrealized depreciation on investments	(18,132,152)	(38,774,321)
Net unrealized depreciation on Credit Facility	547,500	2,107,875
Total net assets	$ 669,717,047	$ 462,657,196
Total liabilities and net assets	$ 1,018,967,531	$ 928,738,214
Net asset value per share	$ 10.22	$ 10.13

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended September 30, 2012	2011	2010
Investment income:			
From non-controlled, non-affiliated investments:			
Interest	$ 99,663,198	$ 83,632,455	$ 57,467,862
Other	8,486,387	4,726,387	1,069,514
From non-controlled, affiliated investments:			
Interest	3,542,583	2,217,320	1,392,381
From controlled, affiliated investments:			
Interest	1,700,222	1,162,333	210,000
Total investment income	113,392,390	91,738,495	60,139,757
Expenses:			
Base management fee (See Note 3)	17,507,262	14,899,983	11,618,773
Performance-based incentive fee (See Note 3)	14,223,777	13,161,597	8,018,309
Interest and expenses on the Credit Facility and SBA debentures (See Note 11)	11,680,634	5,322,231	3,672,444
Administrative services expenses (See Note 3)	3,745,741	2,596,756	2,328,210
Other general and administrative expenses	3,496,326	2,884,029	2,329,110
Expenses before debt issuance costs and excise taxes	50,653,740	38,864,596	27,966,846
Debt issuance costs	5,361,319		
Excise tax	307,990	228,824	98,294
Total Expenses	56,323,049	39,093,420	28,065,140
Net investment income	57,069,341	52,645,075	32,074,617
Realized and unrealized gain (loss) on investments and Credit Facility:			
Net realized gain (loss) on non-controlled, non-affiliated investments	(12,798,035)	16,259,622	(15,417,097)
Net change in unrealized appreciation (depreciation) on:			
Non-controlled, non-affiliated investments	42,727,722	(45,350,345)	36,275,341
Non-controlled and controlled, affiliated investments	(22,085,553)	(1,439,878)	(731,625)
Credit Facility appreciation (See Note 5 and 11)	(1,560,375)	(11,851,000)	(35,665,745)
Net change in unrealized appreciation (depreciation)	19,081,794	(58,641,223)	(122,029)
Net realized and unrealized gain (loss) from investments and Credit Facility	6,283,759	(42,381,601)	(15,539,126)
Net increase in net assets resulting from operations	$ 63,353,100	$ 10,263,474	$ 16,535,491
Net increase in net assets resulting from operations per common share basic and diluted (See Note 7)	$ 1.20	$ 0.24	$ 0.56
Net investment income per common share	$ 1.08	$ 1.25	$ 1.09

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Years ended September 30,		
	2012	**2011**	**2010**
Net increase in net assets from operations:			
Net investment income	$ 57,069,341	$ 52,645,075	$ 32,074,617
Net realized (loss) gain on investments	(12,798,035)	16,259,622	(15,417,097)
Net change in unrealized appreciation (depreciation) on investments	20,642,169	(46,790,223)	35,543,716
Net change in unrealized appreciation on Credit Facility	(1,560,375)	(11,851,000)	(35,665,745)
Net increase in net assets resulting from operations	63,353,100	10,263,474	16,535,491
Distributions to stockholders:			
Distributions	(60,137,978)	(46,347,691)	(32,264,036)
Capital transactions:			
Public offerings	206,572,500	114,080,000	107,710,000
Offerings costs	(7,717,300)	(5,743,800)	(5,986,500)
Reinvestment of dividends	4,989,529	3,829,990	
Net increase in net assets	207,059,851	76,081,973	85,994,955
Net Assets:			
Beginning of year	462,657,196	386,575,223	300,580,268
End of year	$ 669,717,047	$ 462,657,196	$ 386,575,223
Undistributed net investment income, at year end	$ 2,804,397	$ 8,326,854	$ 1,800,646
Capital Share Activity:			
Shares issued from public offerings	19,350,000	9,200,000	10,790,000
Shares issued from reinvestment of dividends	474,722	331,011	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended September 30, 2012	2011	2010
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 63,353,100	$ 10,263,474	$ 16,535,491
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:			
Net change in net unrealized (appreciation) depreciation on investments	(20,642,169)	46,790,223	(35,543,716)
Net change in unrealized appreciation on Credit Facility	1,560,375	11,851,000	35,665,745
Net realized loss (gain) on investments	12,798,035	(16,259,622)	15,417,097
Net accretion of discount and amortization of premium	(10,357,608)	(6,745,834)	(4,203,920)
Purchase of investments	(328,275,329)	(479,733,669)	(309,455,078)
Payment-in-kind interest	(9,065,502)	(10,883,750)	(6,416,075)
Proceeds from disposition of investments	201,656,926	304,008,543	145,237,359
(Increase) Decrease in interest receivable	(4,050,626)	1,935,860	(7,275,040)
Decrease (Increase) in receivables for investments sold	12,240,763	17,135,807	(27,528,767)
(Decrease) Increase in payables for investments purchased	(18,572,499)	(34,212,501)	33,295,475
(Decrease) Increase in unfunded investments	(19,242,446)	14,928,717	15,872,049
Increase in interest payable on Credit Facility and SBA debentures	167,363	472,227	142,347
Decrease (Increase) in prepaid expenses and other assets	466,675	749,017	(90,927)
Increase in management fees payable	783,859	721,238	1,066,706
Increase in performance-based incentive fees payable	433,160	1,534,818	730,847
Increase (Decrease) in accrued other expenses	1,406,285	(368,064)	(500,423)
Net cash used for operating activities	(115,339,638)	(137,812,516)	(127,050,830)
Cash flows from financing activities:			
Public offerings	206,572,500	114,080,000	107,710,000
Offerings costs	(7,717,300)	(5,743,800)	(5,986,500)
Distributions paid	(51,660,628)	(39,582,741)	(27,919,260)
Borrowings under SBA debentures (See Note 11)		135,500,000	14,500,000
Capitalized borrowing costs		(4,450,875)	(686,625)
Borrowings under Credit Facility (See Note 11)	927,900,000	701,900,000	256,000,000
Repayments under Credit Facility (See Note 11)	(1,023,800,000)	(694,100,000)	(248,000,000)
Net cash provided by financing activities	51,294,572	207,602,584	95,617,615
Net (decrease) increase in cash equivalents	(64,045,066)	69,790,068	(31,433,215)
Cash equivalents, beginning of year	71,604,519	1,814,451	33,247,666
Cash equivalents, end of year	$ 7,559,453	$ 71,604,519	$ 1,814,451
Supplemental disclosure of cash flow information and non-cash activity (See Note 5):			
Interest paid	$ 10,643,840	$ 4,149,149	$ 3,161,048
Excise taxes paid	258,550	123,824	98,294
Dividend reinvested	4,989,529	3,829,990	

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2012

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 130.3%[(1),(2)]							
First Lien Secured Debt 41.7%							
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975[(8)]	14,906,250	$ 14,332,682	$ 14,906,250
American Surgical Holdings, Inc.	03/23/2015	Healthcare, Education and Childcare	14.00%	L+1,000[(8)]	17,811,828	17,441,366	17,811,828
Brand Energy and Infrastructure Services, Inc.	02/07/2014	Energy/Utilities	3.68%	L+325	2,000,000	1,757,029	1,973,334
CEVA Group PLC[(5),(10)]	10/01/2016	Cargo Transport	11.63%		7,500,000	7,355,237	7,687,500
CEVA Group PLC[(5),(10)]	04/01/2018	Cargo Transport	11.50%		1,000,000	990,089	880,000
Columbus International, Inc.[(5),(10)]	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,100,000
Good Sam Enterprises, LLC[(5)]	12/01/2016	Consumer Products	11.50%		12,000,000	11,795,443	12,720,000
Hanley-Wood, L.L.C.	01/13/2017	Other Media	8.00%	L+650[(8)]	1,752,896	1,752,896	1,752,896
IDQ Holdings, Inc.[(5)]	04/01/2017	Auto Sector	11.50%		11,500,000	11,288,165	12,218,750
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950[(8)]	24,115,645	23,829,738	23,802,142
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950[(8)]	18,525,000	18,165,492	18,571,313
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.28%	L+225	9,598,649	9,598,649	6,371,103
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	L+775[(8)]	18,952,500	18,216,865	19,236,788
Kadmon Pharmaceuticals, LLC	10/31/2012	Healthcare, Education and Childcare	15.00%	L+1,300[(8)]	4,931,494	4,992,740	5,110,409
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,640,832	25,857,237
Penton Media, Inc.	08/01/2014	Other Media	5.00% (PIK 1.00%)	L+400[(8)]	37,775,294	33,971,917	30,503,550
Pre-Paid Legal Services, Inc., Tranche A	12/30/2016	Personal, Food and Miscellaneous Services	7.50%	L+600[(8)]	1,552,846	1,533,687	1,556,728
Pre-Paid Legal Services, Inc., Tranche B	12/30/2016	Personal, Food and Miscellaneous Services	11.00%	L+950[(8)]	35,000,000	34,118,800	35,350,000
Questex Media Group LLC[(9)]	12/16/2012	Other Media	1.36%		133,603	133,603	133,603
Tekelec Global Inc. (First Out)	01/29/2018	Telecommunications	9.00%	L+750[(8)]	850,000	838,369	850,000
Tekelec Global Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200[(8)]	10,625,000	10,338,450	10,848,126
Worley Claims Services, LLC	07/06/2017	Insurance	12.50%	L+1,100[(8)]	14,934,000	14,934,000	14,859,330

Yonkers Racing Corp.(5)	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,401,515	4,860,000
Total First Lien Secured Debt						277,427,564	278,960,887
Second Lien Secured Debt 25.3%							
American Gilsonite Company(5)	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	26,098,500
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.33%	L+600	13,600,000	13,378,432	12,729,600
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.36%	L+700	12,000,000	11,866,485	11,232,000
DirectBuy Holdings, Inc.(5),(6)	02/01/2017	Consumer Products	12.00%		34,000,000	31,964,822	10,880,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy/Utilities	12.50%		45,000,000	44,543,688	45,000,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% (PIK 11.00%)	L+700(8)	3,184,219	3,184,222	2,292,640
Paradigm Management Services, LLC	07/31/2017	Healthcare, Education and Childcare	12.50%	L+1,100(8)	20,512,821	20,059,979	20,512,821
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650(8)	2,752,666	2,752,666	2,584,753
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% (PIK 11.50%)	L+850(8)	2,230,508	2,230,508	2,002,996

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2012

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index(4)	Par/ Shares	Cost	Fair Value(3)
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	$ 10,000,000	$ 10,062,500
ROC Finance LLC and ROC Finance 1 Corp.	09/01/2018	Hotels, Motels, Inns and Gaming	12.13%		16,000,000	15,752,822	18,560,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.22%	L+600	7,811,488	7,511,344	7,411,149
Total Second Lien Secured Debt						188,644,968	169,366,959
Subordinated Debt/Corporate Notes 52.4%							
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	18,563,943	19,000,000
Affinion Group Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,172,451	24,175,360
Alegeus Technologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,754,461	8,930,000
Convergint Technologies LLC	03/26/2018	Electronics	12.00% (PIK 1.00%)		23,277,586	22,812,086	22,812,034
Diversitech Corporation	01/29/2017	Manufacturing/ Basic Industry	13.50%(7)		11,000,000	10,836,901	11,275,000
Escort, Inc.	06/01/2016	Electronics	14.75% (PIK 2.75%)		25,254,035	24,751,548	25,254,035
Galls, LLC; Quartermaster Inc.	03/31/2017	Distribution	13.00% (PIK 2.00%)		21,797,263	21,399,764	21,906,249
JF Acquisition, LLC	06/30/2017	Distribution	14.00% (PIK 2.00%)		17,171,374	16,748,220	17,377,430
Last Mile Funding Corp.	06/30/2016	Cargo Transport	14.50% (PIK 2.50%)		45,597,139	44,677,474	45,095,570
Learning Care Group (US) Inc.	06/30/2016	Education	15.00% (PIK 15.00%)		5,277,718	4,696,436	4,815,918
LTI Flexible Products, Inc.	01/19/2019	Chemical, Plastic and Rubber	12.50%		30,000,000	30,000,000	30,000,000
LTI Flexible Products, Inc.(9)	01/11/2014	Chemical, Plastic and Rubber			5,000,000	4,825,000	5,000,000
Mailsouth, Inc.	06/15/2017	Printing and Publishing	14.50% (PIK 2.00%)		15,000,000	14,632,413	15,210,000
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	15.02% (PIK 3.02%)		17,123,218	16,783,033	17,123,218
Prince Mineral Holdings Corp.	12/03/2016	Mining, Steel, Iron and Non-Precious Metals	13.50%		26,696,517	26,263,685	26,696,517

			(PIK 2.00%)			
Realogy Corp.	04/15/2018	Buildings and Real Estate	11.00%	10,000,000	9,247,298	9,400,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00 %(7)	12,020,950	11,708,199	12,020,950
TrustHouse Services Group, Inc.	06/03/2019	Beverage, Food, and Tobacco	14.25% (PIK 2.25%)	14,778,578	14,527,411	14,778,578
TrustHouse Services Group, Inc.(9)	06/02/2014	Beverage, Food, and Tobacco		4,000,000	3,920,000	4,000,000
Veritext Corp.	12/31/2015	Business Services	13.00%	16,200,000	15,916,579	16,200,000
Total Subordinated Debt/Corporate Notes					355,236,902	351,070,859
Preferred Equity/Partnership Interests 1.7%(6)						
AH Holdings, Inc. (American Surgical Holdings, Inc.)		Healthcare, Education and Childcare	6.00%	211	500,000	624,081
AHC Mezzanine, LLC		Other Media		7,505	318,896	
Alegeus Technologies Holding Corp., Series A (Alegeus Technologies, LLC)		Financial Services		949	949,050	1,031,820
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare	8.00%	76,357	765,307	881,885

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[(4)]	Par/ Shares	Cost	Fair Value[(3)]
CI (IHS) Investment Holdings, LLC [(9)] (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			38,179	$ 382,654	$
Convergint Technologies Holdings, LLC		Electronics			2,375	2,375,000	2,375,000
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media	8.00%		3,591	24,177	27,916
PAS Tech Holdings, Inc., Series A-1 (PAS Technologies, Inc.)		Aerospace and Defense	8.00%		20,000	1,980,000	823,710
TrustHouse Services Holdings, LLC		Beverage, Food, and Tobacco	12.00%		1,099	984,344	1,111,742
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	1,666,679
Verde Parent Holdings, Inc.		Personal Transportation	8.00%		1,824,167	1,824,167	1,949,629
Total Preferred Equity/Partnership Interests						12,101,421	11,178,282
Common Equity/Warrants/Partnership Interests 9.2%[(6)]							
Acentia, LLC, Class A Units [(12)]		Electronics			1,998	2,000,000	1,737,396
AH Holdings, Inc. (Warrants) (American Surgical Holdings, Inc.)	03/23/2021	Healthcare, Education and Childcare			753		2,063,780
Alegeus Technologies Holding Corp., Class A (Alegeus Technologies, LLC)		Financial Services			1	950	1,033
Autumn Games, LLC		Broadcasting and Entertainment			1,333,330	3,000,000	
CI (Galls) Prime Investment Holdings, LLC [(11)] (Galls, LLC; Quartermaster Inc.)		Distribution			1,505,000	1,505,000	1,680,720
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			23,416	234,693	270,457
CI (IHS) Investment Holdings, LLC[(9)] (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			11,708	117,346	
Convergint Technologies Holdings, LLC (Convergint Technologies) LLC		Electronics			2,375		
CT Technologies Holdings, LLC		Business Services			5,556	1,904,033	6,665,183
DirectBuy Investors, L.P.		Consumer Products			30,000	1,350,000	
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media			348,912	2,443,050	2,642,438
Kadmon Holdings, LLC, Class A (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,236,832	12,013,688
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	5,425,378
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	10/14/2013	Oil and Gas			122,193	105,697	31,778
MidOcean JF Holdings Corp. (JF Acquisition, LLC)		Distribution			1,700	1,700,000	1,641,575
MidOcean PPL Holdings, Inc. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services			3,000	3,000,000	4,377,360
Paradigm Acquisition Corp. (Paradigm Management Services, LLC)		Healthcare, Education and Childcare			20,000	2,000,000	2,124,491

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[4]	Par/ Shares	Cost	Fair Value[3]
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	1,306,166	1,404,661
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		172,457
SPG Boyd Holdings Corp. (LTI Flexible Products, Inc.)		Chemical, Plastic and Rubber			300,000	3,000,000	3,000,000
Titan Private Holdings I, LLC Class A (Tekelec Global, Inc.)		Telecommunications			2,276,847	2,274,883	6,182,426
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	1,197,412
Transportation 100 Holdco, L.L.C.[13] (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,111,588	
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,567	713,718
Verde Parent Holdings, Inc.		Personal Transportation			9,166	9,167	
VText Holdings, Inc. (Veritext Corp.)		Business Services			35,526	4,050,000	6,941,000
Total Common Equity/Warrants/ Partnership Interests						38,457,098	61,315,758
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						871,867,953	871,892,745
Investments in Non-Controlled, Affiliated Portfolio Companies 12.0%[1],[2]							
Second Lien Secured Debt 1.1%							
Performance, Inc.	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625[8]	8,000,000	8,000,000	7,672,000
Subordinated Debt/Corporate Notes 7.1%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00%[7]		7,567,234	7,435,314	7,453,725
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%		24,000,000	23,495,700	24,000,000
Service Champ, Inc.[9]	10/02/2013	Auto Sector			16,000,000	15,640,000	16,000,000
Total Subordinated Debt/Corporate Notes						46,571,014	47,453,725
Common Equity/Partnership Interest 3.8%[6]							
EnviroSolutions, Inc.		Environmental Services			125,106	10,055,844	18,425,519
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000	2,902,355
New Service Champ Holdings, Inc. (Service Champ, Inc.)		Auto Sector			16,800	4,200,000	4,501,658
Total Common Equity/Partnership Interest						18,005,844	25,829,532
Total Investments in Non-Controlled, Affiliated Portfolio Companies						72,576,858	80,955,257

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index[4]	Par/ Shares	Cost	Fair Value[3]
Investments in Controlled, Affiliated Portfolio Companies 5.6%[1),(2]							
First Lien Secured Debt 1.9%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%[7]		10,800,000	$ 10,800,000	$ 10,800,000
UP Support Services, Inc.[9]	12/31/2015	Oil and Gas			743,187	668,632	743,187
UP Support Services, Inc.[9]	12/31/2015	Oil and Gas			1,173,479	1,068,059	1,173,479
Total First Lien Secured Debt						12,536,691	12,716,666
Second Lien Secured Debt 2.1%							
UP Support Services, Inc.	12/31/2015	Oil and Gas	15.00% (PIK 15.00)%		14,300,282	11,809,647	14,300,282
Subordinated Debt/Corporate Notes 0.3%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%[7]		2,700,000	2,700,000	2,158,053
Preferred Equity 1.3%[6]							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	216,947
Universal Pegasus International Holdings, Inc.		Oil and Gas	8.00%		411,988	35,120,613	8,239,760
Total Preferred Equity						37,120,613	8,456,707
Common Equity 0.0%[6]							
SuttonPark Holdings, Inc.		Business Services			100	100	
Total Investments in Controlled, Affiliated Portfolio Companies						64,167,051	37,631,708
Total Investments 147.9%						1,008,611,862	990,479,710
Cash Equivalents 1.1%						7,559,453	7,559,453
Total Investments and Cash Equivalents 149.0%						**$ 1,016,171,315**	**$ 998,039,163**
Liabilities in Excess of Other Assets (49.0%)							(328,322,116)
Net Assets 100.0%							**$ 669,717,047**

(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 (L) or Prime (P) 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, normally to qualified institutional buyers.
(6) Non-income producing securities.
(7) Coupon is payable in cash and/or in-kind, or PIK.
(8) Coupon is subject to a LIBOR or Prime rate floor.
(9) Represents the purchase of a security with delayed settlement (unfunded investments). This security does not have a basis point spread above an index.
(10) Non-U.S. company or principal place of business outside the U.S.
(11) Investment is held through PNNT CI (Galls) Prime Investment Holdings, LLC, a consolidated subsidiary.
(12) Investment is held through PNNT Acentia LLC, a consolidated subsidiary.
(13) Investment is held through PNNT Transportation 100 Holdco, LLC, a consolidated subsidiary.

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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

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index(4)	Par/ Shares	Cost	Fair Value(3)
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
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	
		Personal Transportation	8.00%		1,824,167	1,824,167	1,911,003

Verde Parent Holdings, Inc.
(VPSI, Inc.)

Total Preferred Equity/Partnership Interests	10,268,187	8,024,938

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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)
Common Equity/Warrants/Partnership Interests 7.0%(1)							
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
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

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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 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
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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Except where the context suggests otherwise, the terms we, us, our and PennantPark Investment refer to PennantPark Investment Corporation and its consolidated subsidiaries. SBIC LP refers to our wholly owned, consolidated small business investment company, or SBIC, PennantPark SBIC LP.

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 Investment Company Act of 1940, as amended, or 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, to a lesser extent 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 43.6 million shares of common stock through follow-on public offerings, resulting in net proceeds of $441.4 million. During the fiscal year September 30, 2012, we sold 19.4 million shares in follow-on public offerings, resulting in net proceeds of $198.9 million, after estimated offering costs. On September 28, 2012, we completed an offering of 9.0 million shares of common stock at a public offering price of $10.82 per share for gross proceeds of $97.4 million and net proceeds of $93.6 million after underwriting discounts and offering expenses. See Note 14.

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

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 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-K 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

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deemed not reflective of the fair value of the investment. The independent valuation firms review management s preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

(4) The audit committee of our board of directors reviews the preliminary valuations of 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, OID, 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

We have complied with the requirements of Subchapter M of the Code and expect to be subject to tax as a RIC. As a result, we account 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 pay an excise tax of $0.3 million, $0.2 million and $0.1 million for the fiscal years ended September 30, 2012, 2011 and 2010, 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 2009 remain subject to examination by the Internal Revenue Service and the state department of revenue.

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. 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 SBIC LP, SBIC GP and our Taxable Subsidiaries in our Consolidated Financial Statements.

3. AGREEMENTS

PennantPark Investment s Investment Management Agreement, with the Investment Adviser was re-approved by our board of directors, including a majority of our 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 gross assets (net of temporary draws under our Credit Facility and other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter, or average adjusted gross assets, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average value of our average adjusted gross total assets at the end of the two most recently completed calendar quarters, and appropriately

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

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adjusted for any share issuances or repurchases during the current calendar quarter. For the fiscal years ended September 30, 2012, 2011 and 2010, the Investment Adviser earned base management fees of $17.5 million, $14.9 million and $11.6 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 OID, 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 percentage 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 fiscal years ended September 30, 2012, 2011 and 2010, the Investment Adviser received an incentive fee of $14.2 million, $13.2 million and $8.0 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 fiscal years ended September 30, 2012, 2011 and 2010, resulted in no accrual.

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. 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 or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal 20% 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. For the years ended September 30, 2012, 2011 and 2010, our unrealized and realized capital gains did not exceed our cumulative realized and unrealized losses and resulted in no accrual under GAAP.

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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 fiscal years ended September 30, 2012, 2011 and 2010, the Investment Adviser and Administrator, collectively, were reimbursed $3.6 million, $2.6 million and $2.1 million, respectively, from us, including expenses it incurred on behalf of the Administrator, for services described above.

PennantPark Investment entered into an administration agreement with its controlled affiliate, 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 fiscal years ended September 30, 2012, 2011 and 2010, PennantPark Investment was reimbursed $0.7 million, $0.5 million and $0.1 million, respectively, for the services described above.

4. INVESTMENTS

Purchases of long-term investments, including PIK, for the fiscal years ended September 30, 2012, 2011 and 2010 totaled $337.3 million, $490.6 million and $315.8 million, respectively. Sales and repayments of long-term investments for the fiscal years ended September 30, 2012, 2011 and 2010 totaled $201.7 million, $304.0 million and $145.2 million, respectively.

Investments and cash equivalents consisted of the following:

	September 30, 2012		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value
First lien	$ 289,964,255	$ 291,677,553	$ 305,608,989	$ 296,488,131
Second lien	208,454,615	191,339,241	189,962,828	165,272,201
Subordinated debt / corporate notes	404,507,916	400,682,637	325,318,958	309,329,169
Preferred equity	49,222,034	19,634,989	12,268,187	9,762,932
Common equity	56,463,042	87,145,290	33,163,874	46,696,082
Total investments	1,008,611,862	990,479,710	866,322,836	827,548,515
Cash equivalents	7,559,453	7,559,453	71,604,519	71,604,519
Total investments and cash equivalents	$ 1,016,171,315	$ 998,039,163	$ 937,927,355	$ 899,153,034

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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 September 30,:

Industry Classification	2012	2011
Healthcare, Education and Childcare	8%	10%
Electronics	7	3
Energy/Utilities	7	9
Auto Sector	6	
Business Services	6	11
Cargo Transport	6	6
Chemicals, Plastics and Rubber	5	6
Consumer Products	5	5
Distribution	4	
Personal, Food and Miscellaneous Services	4	5
Printing and Publishing	4	5
Other Media	4	4
Communication	3	1
Diversified Natural Resources, Precious Metals and Minerals	3	
Education	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
Financial Services	2	
Hotels, Motels, Inns and Gaming	2	4
Insurance	2	
Leisure, Amusement, Motion Pictures, Entertainment	2	2
Telecommunications	2	
Manufacturing/Basic Industry		1
Personal Transportation		2
Other	1	5
Total	100%	100%

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.

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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 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 fiscal year ended September 30, 2012, our ability to observe valuation inputs has resulted in no reclassification of assets between Levels 1, 2 and 3. During the fiscal year ended December 31, 2011 there was a transfer out of Level 3 to Level 2.

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.

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In accordance with Accounting Standards Update No. 2011-04 Fair Value Measurement: Amendment to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, 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 at September 30, 2012	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien, second lien, subordinated debt/corporate notes	$ 258,617,082	Market Comparable	Broker/ Dealer bid quotes	1 5
First lien, second lien, subordinated debt/corporate notes	$ 589,806,989	Market Comparable	Market Yield	8.4% 19.0% (14.1%)
Preferred and common equity	$ 101,323,123	Enterprise Market Value	EBITDA multiple	4.3x 15.5x (8.5x)
Total Level 3 investments	$ 949,747,194			
Long-Term Credit Facility	$ 144,452,500	Market Comparable	Discount rate	3.5%

Our cash equivalents, investments and our Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes:

		Fair Value at September 30, 2012		
Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Loan and debt investments	$ 883,669,431	$	$ 35,275,360	$ 848,424,071
Equity investments	106,780,279	5,425,378	31,778	101,323,123
Total investments	990,449,710	5,425,378	35,307,138	949,747,194
Cash equivalents	7,559,453	7,559,453		
Total investments and cash equivalents	$ 998,009,163	$ 12,984,831	$ 35,307,138	$ 949,747,194
Credit Facility	$ 144,452,500	$	$	$ 144,452,500

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	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):

	Year ended September 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)	(1,893,297)	(865,772)	(2,759,069)
Unrealized appreciation	23,034,558	(11,283,219)	11,751,339
Purchases, PIK, net discount accretion and non-cash exchanges	288,868,017	66,892,499	355,760,516
Sales / repayments	(194,279,658)	(5,773,713)	(200,053,371)
Transfers in or out of Level 3			
Ending Balance, September 30, 2012	$ 848,424,071	$ 101,323,123	$ 949,747,194
Net change in unrealized appreciation (depreciation) for the fiscal year reported within the net change in unrealized appreciation (depreciation) on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date	$ 25,864,375	$ (9,858,219)	$ 16,006,156

	Year ended September 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 (losses)	10,194,422	6,065,196	16,259,618
Unrealized appreciation	(48,568,848)	2,904,075	(45,664,773)
Purchases, PIK, net discount accretion and non-cash exchanges	486,512,694	9,969,861	496,482,555
Sales / repayments	(292,284,905)	(11,723,632)	(304,008,537)
Transfers in or out of Level 3	(38,395,050)		(38,395,050)
Ending Balance, September 30, 2011	$ 732,694,451	$ 52,353,328	$ 785,047,779

Net change in unrealized appreciation (depreciation) for the fiscal year reported within the net change in unrealized appreciation (depreciation) on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date	$ (24,916,057)	$ 2,186,601	$ (22,729,456)

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The following tables show a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3):

	Carrying / Fair Value	
Credit Facility	**Year Ended September 30, 2012**	**Year Ended September 30, 2011**
Beginning Balance (Cost $240,900,000 and $227,900,000, respectively)	$ 238,792,125	$ 213,941,125
Total unrealized appreciation included in earnings	1,560,375	11,851,000
Borrowings(1)	556,800,000	407,500,000
Repayments(1)	(688,200,000)	(394,500,000)
Transfers in and/or out of Level 3		
Ending Balance (Cost $109,500,000 and $240,900,000, respectively)	108,952,500	238,792,125
Temporary draw outstanding, at cost	35,500,000	
Ending Balance (Cost $145,000,000 and 240,900,000, respectively)	$ 144,452,500	$ 238,792,125

(1) Excludes temporary draws.

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 and expensed up-front fees of $5.4 million, which represents transaction costs and expenses related to the amended 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 years ended September 30, 2012 and 2011, our Credit Facility had a net change in unrealized appreciation of $1.6 million and $11.9 million, respectively. As of September 30, 2012 and 2011, net unrealized depreciation on our Credit Facility totaled $0.5 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.

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6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated company is a company in which the PennantPark Investment has ownership of 5% or more of the portfolio company s voting securities. A controlled affiliate is a portfolio company in which we own more than 25% of its voting securities. Purchase of /Advances to and Sale of / Distributions from affiliates are included in the Consolidated Statement of Cash Flows purchases and sales. Transactions with affiliates 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 September 30, 2012	Capital Loss
Controlled Affiliates						
SuttonPark Holdings, Inc.	$ 13,500,001	$ 5,500,000	$ 3,500,000	$ 2,078,611	$ 13,175,000	$
UP Support Services, Inc.	24,173,984				24,456,708*	
Non-Controlled Affiliates						
Envirosolutions, Inc.	25,740,212	6,815,433	13,657,543	366,936	18,425,519	(11,007)
Performance Holdings, Inc.	14,932,921			863,771	18,028,080	
Service Champ, Inc.	$	$ 27,660,000	$	$ 758,333	$ 44,501,658	$
Total Controlled and Non-Controlled Affiliates	$ 78,347,118	$ 39,975,433	$ 17,157,543	$ 4,067,651	$ 118,586,965	$ (11,007)

* Became a controlled affiliate on September 30, 2012.

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	Years ended September 30, 2012	2011	2010
Numerator for net increase in net assets resulting from operations	$ 63,353,100	$ 10,263,474	$ 16,535,491
Denominator for basic and diluted weighted average shares	52,969,278*	42,196,076	29,546,772
Basic and diluted net increase in net assets per share resulting from operations	$ 1.20	$ 0.24	$ 0.56

* The denominator for diluted weighted average shares was 52,975,015 shares.

8. TAXES AND DISTRIBUTIONS

Dividends from net investment income and net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ materially from amounts determined in accordance with GAAP. These book-to-tax differences are either temporary or permanent in nature. To the extent these differences are permanent, they are reclassified to undistributed net investment income, accumulated net realized loss or paid-in-capital, as appropriate in the period that the difference arises. The following differences were reclassified for tax purposes for the years ended September 30, 2012, 2011 and 2010:

	2012	2011	2010
Increase (Decrease) in paid-in capital	$ 276,902	$ (228,824)	$ (98,294)
Decrease in accumulated net realized loss	2,176,918		
(Decrease) Increase in undistributed net investment income	$ (2,453,820)	$ 228,824	$ 98,294

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As of September 30, 2012 and 2011, the cost of investments for federal income tax purposes was $1,006.8 million and $865.8 million, respectively, resulting in a gross unrealized appreciation of $59.9 million and $31.3 million, respectively, and gross unrealized depreciation of $76.3 million and $69.6 million, respectively.

The following reconciles net increase in net assets resulting from operations to taxable income:

	Years ended September 30,		
	2012	**2011**	**2010**
Net increase in net assets resulting from operations	$ 63,353,100	$ 10,263,474	$ 16,535,491
Net realized loss (gain) on investments not taxable	12,798,035	(16,259,622)	15,417,097
Net unrealized (appreciation) depreciation on investments and Credit Facility	(19,081,794)	58,641,223	122,029
Other temporary book-to-tax differences	2,444,817	(3,178,194)	(321,805)
Other non-deductible expenses	307,990	228,824	
Taxable income before deductions for distributions	$ 59,822,148	$ 49,695,705	$ 31,752,812

The components of accumulated losses on book basis and reconciliation to accumulated losses on a tax basis are as follows:

	As of September 30,		
	2012	**2011**	**2010**
Undistributed ordinary income	$ 18,634,553	$ 17,639,482	$ 11,451,782
Undistributed long-term net capital gains			
Total undistributed taxable income	18,634,553	17,639,482	11,451,782
Capital loss carry forwards(1)(3)	(56,786,282)	(47,030,821)	(54,591,911)
Post-October capital losses(2)			(8,645,354)
Dividends payable and other temporary differences	(21,086,425)	(12,477,778)	(9,651,137)
Net unrealized appreciation (depreciation) of investments and Credit Facility	(15,815,138)	(36,122,397)	19,300,499
Total accumulated deficit	$ (75,053,292)	$ (77,991,514)	$ (42,136,121)

(1) As of September 30, 2012, the capital loss carry forward of $56.8 million expires, if not utilized against future capital gains, as follows: $1.5 million in 2017, $43.3 million in 2018 and $12.0 million has no expiration date.

(2) Under federal tax law, capital losses realized after October 31 may be deferred and treated as having arisen on the first day of the following fiscal year.

(3) Under the recently enacted Regulated Investment Company Modernization Act of 2010, capital losses incurred by us after September 30, 2011 will not be subject to expiration. In addition, those losses must be utilized prior to the losses incurred in pre-enactment taxable years.

The tax characteristics of dividends during the fiscal years ended September 30, 2012 and 2011 were solely from ordinary income and totaled $60.1 million, or $1.13 per share, and $46.3 million, or $1.10 per share, respectively.

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9. CASH EQUIVALENTS

Cash equivalents represents 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 original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule 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 its total assets at quarter end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out its positions on a net cash basis after quarter-end, temporarily drawing down on 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 September 30, 2012 and 2011 cash equivalents consisted of $7.6 million and $71.6 million, respectively, including amounts in money market funds.

10. FINANCIAL HIGHLIGHTS

Below are the financial highlights for the respective years then ended September 30,:

	2012	2011	2010	2009	2008
Per Share Data:					
Net asset value, beginning of year	$ 10.13	$ 10.69	$ 11.85	$ 10.00	$ 12.83
Cumulative effect of adoption of fair value option[(1)]				1.99	
Adjusted net asset value, beginning of year	10.13	10.69	11.85	11.99	12.83
Net investment income[(2)]	1.08	1.25	1.09	1.08	0.88
Net realized and unrealized gain (loss)[(2)]	0.12	(1.01)	(0.53)	0.62	(2.81)
Net increase (decrease) in net assets resulting from operations [(2)]	1.20	0.24	0.56	1.70	(1.93)
Distributions to stockholders[(2),(3)]	(1.13)	(1.10)	(1.09)	(0.96)	(0.90)
Offering costs[(2)]	(0.15)	(0.14)	(0.20)	(0.09)	
Accretive (Dilutive) effect of common stock issuance[(2)]	0.17	0.44	(0.43)	(0.79)	
Net asset value, end of year	$ 10.22	$ 10.13	$ 10.69	$ 11.85	$ 10.00
Per share market value, end of year	$ 10.61	$ 8.92	$ 10.61	$ 8.11	$ 7.41
Total return[(4)]	28.71%	(7.37)%	44.79%	30.39%	(38.58)%
Shares outstanding at end of year	65,514,503	45,689,781	36,158,772	25,368,772	21,068,772
Ratio / Supplemental Data:					
Ratio of operating expenses to average net assets[(5)]	7.11%	7.28%	7.16%	7.42%	6.30%
Ratio of Credit Facility related expenses to average net assets[(7)]	3.08%	1.15%	1.08%	1.93%	2.66%
Ratio of total expenses to average net assets[(6),(7)]	10.19%	8.43%	8.24%	9.35%	8.96%
Ratio of net investment income to average net assets	10.32%	11.35%	9.45%	9.49%	7.82%
Net assets at end of year[(7)]	$ 669,717,047	$ 462,657,196	$ 386,575,223	$ 300,580,268	$ 210,728,260
Weighted average debt outstanding[(7)]	$ 340,868,033	$ 278,294,433	$ 246,216,548	$ 182,490,685	$ 119,472,732
Weighted average debt per share[(7)]	$ 6.44	$ 6.60	$ 8.33	$ 8.65	$ 5.67
Portfolio turnover ratio	22.81%	40.89%	25.97%	7.47%	20.10%

(1) On October 1, 2008, PennantPark Investment adopted ASC 825 and made an irrevocable election to apply the fair value option to our long-term Credit Facility. Upon our adoption Net Asset Value increased $41.8 million, or $1.99 per share, due to the fair value adjustment related to our Credit Facility.
(2) Calculated based on the weighted average shares outstanding for the respective periods.
(3) Determined based on taxable income calculated in accordance with income tax regulations and may differ from amounts determined under GAAP.
(4) 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.
(5) Before adoption of ASC 825 for the fiscal years ended September 30, 2012, 2011, 2010, 2009 and 2008, the ratios were 7.11%, 7.38%, 7.95%, 9.32% and 6.47%, respectively.
(6) Before adoption of ASC 825 for the fiscal years ended September 30, 2012, 2011, 2010, 2009 and 2008, the ratios were 10.20%, 8.55%, 9.15%, (1.75%) and 9.13%, respectively.
(7) Includes the SBA debentures outstanding.

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11. 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 to $380 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 September 30, 2012 and September 30, 2011, there was $145.0 million (including a temporary draw of $35.5 million) and $240.9 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.49% 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. 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, PennantPark Investment is only allowed to borrow amounts such that our asset coverage ratio is met after such borrowing. As of September 30, 2012, we excluded the principal amounts of our SBA debentures, from our asset coverage ratio pursuant to an SEC

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exemptive relief, received in June 2011, resulting in an asset coverage ratio of 564%. As a result of this exemptive relief, our asset coverage ratio of total assets on a consolidated basis, including the principal amount of our SBA debentures, to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

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 September 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 September 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 which are amortized over the life of the loan (4.04% after upfront fees). Our fixed rate SBA debentures as of September 30, 2012 are 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 because SBIC LP is wholly owned by us.

12. 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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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

13. SUBSEQUENT EVENTS

On October 25, 2012, we sold an additional 700,000 shares of common stock at a public offering price of $10.82 per share, generating gross proceeds of $7.6 million and net proceeds of $7.3 million after underwriting discounts and offering expenses payable by us, from the underwriters partial exercise of the option to purchase additional shares we granted to them in connection with the offering that closed on September 28, 2012.

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Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

PennantPark Investment Corporation and subsidiaries

We consent to the use of our reports dated November 14, 2012 with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting for PennantPark Investment Corporation and subsidiaries included herein and to the references to our firm under the headings Selected Financial Data , and Senior Securities in the Registration Statement on Form 497.

New York, New York

January 14, 2013

S-81

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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 8 and Sales of Common Stock Below Net Asset Value on page 52 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.

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 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 38 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.

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

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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 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

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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 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

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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 o