

PENNANTPARK INVESTMENT CORP

Form 497

March 01, 2010

**Table of Contents**

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

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

**Subject to Completion, Dated March 1, 2010**

**Preliminary Prospectus Supplement**

**To the Prospectus dated**

**February 24, 2010**

**5,000,000**

## **Common Stock**

We are offering for sale 5,000,000 shares of our common stock. We are offering shares of our common stock at a discount from our most recently determined net asset value per share pursuant to authority granted by our stockholders on February 2, 2010. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. See Risk Factors on page 9 of the accompanying prospectus and Sales of Common Stock Below Net Asset Value on page 51 of the accompanying prospectus and page S-12 of this prospectus supplement.

Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT. The last reported closing price for our common stock on February 26, 2010 was \$10.20 per share. The net asset value of our common stock on December 31, 2009 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$11.86 per share.

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

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

**Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 9 of the accompanying prospectus and Sales of Common Stock Below Net Asset Value on page S-12 in this prospectus supplement and page 51 of the accompanying prospectus.**

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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

	Per Share	Total
Public offering price	\$	\$
Underwriting discount and commission (sales load)	\$	\$
Proceeds to PennantPark Investment Corporation (before estimated expenses of \$325,000)	\$	\$

The underwriters may also purchase up to an additional 750,000 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments. If the underwriters exercise this option in full, the total public offering price will be \$ , the total underwriting discount and commissions (sales load) paid by us will be \$ , and total proceeds, before expenses, will be \$ .

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

**Joint-bookrunners**

**J.P. Morgan**

**Baird**

**Stifel Nicolaus**

**SunTrust Robinson Humphrey**

**Co-managers**

**BMO Capital Markets FBR Capital Markets**

**Janney Montgomery Scott**

**Keefe, Bruyette & Woods**

The date of this prospectus supplement is 2010.

**Table of Contents**

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

**TABLE OF CONTENTS**

**PROSPECTUS SUPPLEMENT**

<b><u>SUPPLEMENTAL PROSPECTUS SUMMARY</u></b>	<b>S-1</b>
<b><u>FEES AND EXPENSES</u></b>	<b>S-6</b>
<b><u>FORWARD-LOOKING STATEMENTS</u></b>	<b>S-8</b>
<b><u>USE OF PROCEEDS</u></b>	<b>S-9</b>
<b><u>CAPITALIZATION</u></b>	<b>S-10</b>
<b><u>PRICE RANGE OF COMMON STOCK</u></b>	<b>S-11</b>
<b><u>SALES OF COMMON STOCK BELOW NET ASSET VALUE</u></b>	<b>S-12</b>
<b><u>SELECTED FINANCIAL DATA</u></b>	<b>S-16</b>
<b><u>UNDERWRITING</u></b>	<b>S-19</b>
<b><u>MANAGEMENT</u></b>	<b>S-22</b>
<b><u>LEGAL MATTERS</u></b>	<b>S-24</b>

**PROSPECTUS**

PROSPECTUS SUMMARY	1
FEES AND EXPENSES	7
RISK FACTORS	9
FORWARD-LOOKING STATEMENTS	30
USE OF PROCEEDS	31
SELECTED FINANCIAL DATA	32
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	34
SENIOR SECURITIES	48
PRICE RANGE OF COMMON STOCK	49
SALES OF COMMON STOCK BELOW NET ASSET VALUE	50
DISTRIBUTIONS	55
BUSINESS	57
INVESTMENT OBJECTIVES AND POLICIES	61
PORTFOLIO COMPANIES	68
MANAGEMENT	73
CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS	78
CERTAIN RELATIONSHIPS AND TRANSACTIONS	80
DETERMINATION OF NET ASSET VALUE	85
DIVIDEND REINVESTMENT PLAN	88
DESCRIPTION OF OUR CAPITAL STOCK	89
DESCRIPTION OF OUR PREFERRED STOCK	95
DESCRIPTION OF OUR WARRANTS	96
DESCRIPTION OF OUR SUBSCRIPTION RIGHTS	98
DESCRIPTION OF OUR DEBT SECURITIES	99
REGULATION	112
BROKERAGE ALLOCATIONS AND OTHER PRACTICES	117
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	118

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

PLAN OF DISTRIBUTION	123
CUSTODIAN, TRANSFER AGENT AND TRUSTEE	125
LEGAL MATTERS	125
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	125
PRIVACY PRINCIPLES	125
INDEX TO FINANCIAL STATEMENTS	F-1

---

**Table of Contents**

**SUPPLEMENTAL PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under **Risk Factors** and the other information included in the accompanying prospectus before making an investment decision. In this prospectus supplement and the accompanying prospectus, except where the context suggests otherwise, the terms **we**, **us**, **our** and **PennantPark Investment** refer to PennantPark Investment Corporation; **PennantPark Investment Advisers** or the **Investment Adviser** refers to PennantPark Investment Advisers, LLC; **PennantPark Investment Administration** or the **Administrator** refers to PennantPark Investment Administration, LLC.*

**PennantPark Investment Corporation**

PennantPark Investment Corporation, a Maryland corporation, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended (the **1940 Act**). In addition, for tax purposes we have elected to be treated as a regulated investment company (**RIC**) under the Internal Revenue Code of 1986, as amended (the **Code**).

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans, and equity investments. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt, certain senior secured investments, and to a lesser extent, equity investments.

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

**About PennantPark Investment Advisers**

Our investment activities are managed by the Investment Adviser under an investment management agreement, (the **Investment Management Agreement**). The Investment Adviser is responsible for sourcing potential investments, conducting research on prospective investments, analyzing investment opportunities, structuring our investments and monitoring our investments on an ongoing basis. The Investment Adviser is led by Arthur H. Penn, its founder and the founder of PennantPark Investment. Mr. Penn has over 23 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. He has been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in each of these businesses. Mr. Penn is a Co-founder and former Managing Partner of Apollo Investment Management, L.P., or Apollo Investment Management, which is the Investment Adviser of Apollo Investment Corporation, or Apollo Investment, a publicly traded business development company. Mr. Penn served as the Chief Operating Officer and a member of the investment committee of Apollo Investment from its inception in April 2004 through February 2006 and was President and Chief Operating Officer from February 2006 through November 2006. During Mr. Penn's tenure with Apollo Investment, it invested approximately \$2.8 billion in 73 companies in partnership with 54 different financial sponsors.

## Table of Contents

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

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

### **About PennantPark Investment Administration**

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

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

### **Market Opportunity**

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

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

**We believe that the current credit market dislocation improves the risk/reward of our investments.** The downturn in the credit market has resulted in less competition, more conservative capital structures, higher yields and stronger covenants.

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

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

## **Table of Contents**

### **Competitive Advantage**

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

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

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

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

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

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

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

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

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

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

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

### **Competition**

Our primary competitors provide financing to middle-market companies and include other business development companies, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles,

## **Table of Contents**

such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available since the downturn in the credit markets, which began in mid-2007. We believe this has resulted in a less competitive environment for making new investments.

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

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

## **Leverage**

We maintain a five-year, multi-currency \$300.0 million senior secured credit facility (the **credit facility**), which matures on June 25, 2012 and is secured by substantially all of our investment portfolio assets, with a group of lenders, under which we had \$245.7 million and \$225.1 million (including a \$7.0 million temporary draw) of indebtedness outstanding at December 31, 2009 and September 30, 2009, respectively. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. See note 10 to our financial statements for the quarter ended December 31, 2009 in the accompanying prospectus.

## **Operating and Regulatory Structure**

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

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

## **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, or for other general corporate purposes. See **Use of Proceeds** in this prospectus supplement for information regarding our outstanding borrowings as of December 31, 2009, the corresponding interest rate charged on such borrowings as of that date and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.



## **Table of Contents**

### **Dividends on Common Stock**

We intend to continue to distribute quarterly dividends to our common stockholders. Our quarterly dividends, if any, are determined by our board of directors. For more information, see **Distributions** in the accompanying prospectus.

### **Dividend Reinvestment Plan**

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

### **Recent Developments**

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

On February 24, 2010, our board of directors approved an issuance of shares of common stock at a price below our current net asset value per share and at a price per share that approximates the market value of our shares traded on the NASDAQ Global Select Market, less an underwriting discount, at the time of sale. Our board of directors unanimously believed that such issuance was in our best interest and in the best interests of our stockholders.

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

### **Our Corporate Information**

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

**Table of Contents****FEES AND EXPENSES**

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

<b>Stockholder transaction expenses (as a percentage of the offering price)</b>	
Sales load	5.00% <sup>(1)</sup>
Offering expenses	0.64% <sup>(2)</sup>
<b>Total common stockholder expenses</b>	<b>5.64%</b>
<b>Estimated annual expenses (as a percentage of average net assets attributable to common shares)<sup>(3)</sup></b>	
Management fees	3.51% <sup>(4)</sup>
Incentive fees payable under the Investment Management Agreement	2.21% <sup>(5)</sup>
Interest payments on borrowed funds	1.00% <sup>(6)</sup>
Other expenses	1.34% <sup>(7)</sup>
<b>Total annual expenses</b>	<b>8.06%</b>

- (1) The underwriting discounts and commissions with respect to the shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.
- (2) Amount reflects estimated offering expenses of approximately \$325,000 and based on the 5,000,000 shares offered in this offering at the last reported closing price of \$10.20 per share of our common stock on February 26, 2010.
- (3) Net assets attributable to common shares equals average net assets for the three months ended December 31, 2009 plus the anticipated net proceeds from this offering.
- (4) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross total assets. See Certain Relationships and Transactions Investment Management Agreement in the accompanying prospectus.
- (5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the three months ended December 31, 2009, annualized for a full year. Such incentive fees are based on performance, vary from year to year and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended December 31, 2009. For more detailed information about the incentive fee, please see Certain Relationships and Transactions Investment Management Agreement in the accompanying prospectus.
- (6) As of December 31, 2009, we had \$54.3 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$245.7 million in borrowings outstanding under our \$300.0 million credit facility. We may use the proceeds of this offering to repay outstanding obligations under our credit facility. After completing the offering, we intend to continue to borrow under our credit facility to finance portfolio investments and are permitted to do so under the terms of our credit facility. We have estimated the interest payments on borrowed funds to take this into account; however, we caution you that our actual interest

**Table of Contents**

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

- (7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan, and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the three months ended December 31, 2009, annualized for a full year. See our Statement of Operations in our financial statements in the accompanying prospectus.

**Example**

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a \$1,000 hypothetical investment in common shares, assuming (1) a 5% sales load (underwriting discounts and commissions) and offering expenses totaling 0.64%, (2) total net annual expenses of 5.85% of average net assets attributable to common shares for the three months ended December 31, 2009 as set forth in the table above (other than performance-based incentive fees under the Investment Management Agreement) and (3) a 5% annual return:

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Total expenses incurred	\$ 111	\$ 220	\$ 327	\$ 586

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

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

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

our future operating results;

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

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

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

the impact of investments that we expect to make;

the impact of fluctuations in interest rates on our business;

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

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

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

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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

S-8

**Table of Contents**

**USE OF PROCEEDS**

We estimate that net proceeds we will receive from the sale of 5,000,000 shares of our common stock in this offering will be approximately \$48.1 million (or approximately \$55.4 million if the underwriters fully exercise their overallotment option), in each case based on a public offering price of \$10.20 per share, which was the last reported closing price of our common stock on February 26, 2010, after deducting the underwriting discounts and commissions of \$2.6 million (or approximately \$2.9 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$325,000 payable by us. The amount of net proceeds may be more or less than the amount described in this prospectus supplement depending on the public offering price of the common stock and the actual number of shares of common stock we sell in the offering, both of which will be determined at pricing.

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

As of December 31, 2009, we had \$54.3 million unused, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$245.7 million in borrowings outstanding under our \$300.0 million credit facility. Borrowings under our credit facility bear interest at an annual rate equal to LIBOR + 100 basis points per annum. At December 31, 2009, the weighted average interest rate at that time was 1.23%. The credit facility is a five-year revolving facility with a stated maturity date of June 25, 2012 and is secured by substantially all of the assets in our investment portfolio. Amounts repaid under our credit facility will remain available for future borrowings.

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

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

The following table sets forth our cash and capitalization on December 31, 2009 (1) on an actual basis and (2) as adjusted to reflect the effects of the sale of 5,000,000 shares of our common stock in this offering at an offering price of \$10.20 per share, which was the last reported closing price of our common stock on February 26, 2010, (\$9.63 per share net). The as adjusted information is illustrative only; our capitalization following the completion of this offering is subject to further adjustments. You should read this table together with Use of Proceeds set forth in this prospectus supplement and in the accompanying prospectus. You should also read this table with our financial statements and notes thereto, in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the accompanying prospectus.

	As of December 31, 2009 (unaudited)	
	Actual	As adjusted for the offering <sup>(1)</sup>
Cash and cash equivalents	\$ 7,051,165	\$ 55,176,165
Total assets	526,897,794	575,022,794
Borrowings under senior secured credit facility (cost \$245,700,000)	201,914,294	201,914,294
<b>Stockholders' Equity</b>		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized, 25,808,772 shares issued and outstanding, 30,808,772 shares issued and outstanding, as adjusted, respectively	25,809	30,809
Paid in capital in excess of par	330,405,864	378,525,864
Undistributed net investment income	2,675,930	2,675,930
Accumulated net realized loss on investments and cash equivalents	(67,098,312)	(67,098,312)
Net unrealized depreciation on investments	(3,646,675)	(3,646,675)
Net unrealized depreciation on credit facility	43,785,706	43,785,706
Total stockholders' equity	\$ 306,148,322	\$ 354,273,322
Total capitalization	\$ 508,062,616	\$ 556,187,616

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

**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market. On February 26, 2010, the last reported closing price of our common stock was \$10.20 per share.

Period	NAV <sup>(1)</sup>	Closing Sales Price		High	Low	Declared Dividends
		High	Low	Sales Price to NAV <sup>(2)</sup>	Sales Price to NAV <sup>(2)</sup>	
<b>Fiscal year ending September 30, 2010</b>						
Second quarter (through February 26, 2010)	\$ N/A	\$ 10.56	\$ 8.88	N/A%	N/A%	\$ 0.26 <sup>(3)</sup>
First quarter	11.86	9.15	7.63	77	64	0.25
<b>Fiscal year ended September 30, 2009</b>						
Fourth quarter	11.85	9.06	6.28	76	53	0.24
Third quarter	11.72	7.65	3.85	65	33	0.24
Second quarter	12.00	4.05	2.64	34	22	0.24
First quarter	10.24	7.81	2.35	76	23	0.24
<b>Fiscal year ended September 30, 2008</b>						
Fourth quarter	10.00	8.50	5.92	85	59	0.24
Third quarter	10.77	8.60	7.05	80	65	0.22
Second quarter	10.26	11.31	8.38	110	82	0.22
First quarter	12.07	14.49	9.08	120	75	0.22
<b>Fiscal year ended September 30, 2007</b>						
Fourth quarter	12.83	14.76	12.61	115	98	0.22
Third quarter*	13.74	15.03	14.04	109	102	0.14

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period. See "Certain Relationships and Transactions" in the accompanying prospectus.

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

(3) Payable on April 1, 2010 to stockholders of record as of March 25, 2010.

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

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares. Our shares have traded above and below our NAV. Our shares traded on NASDAQ Global Select Market at \$8.92 and \$8.11 as of December 31, 2009 and September 30, 2009, respectively. Our NAV was \$11.86 and \$11.85, as of December 31, 2009 and September 30, 2009, respectively. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.



**Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

The offering of common stock being made pursuant to this prospectus supplement and the accompanying prospectus is at a price below our most recently reported NAV on December 31, 2009 of \$11.86 per share. Our board of directors also considered the fact that sales of shares of common stock at a discount will benefit our Investment Adviser, as the Investment Adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of PennantPark Investment or from the offering of common stock at a premium to NAV per share.

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

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

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

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

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

S-12

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

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

The following chart illustrates the level of NAV dilution that would be experienced by a stockholder who does not participate in the offering. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of December 31, 2009. NAV has not been finally determined for any day after December 31, 2009. The following example assumes a sale of 5,000,000 shares at \$10.20 per share, which was the last reported closing price of our common stock on February 26, 2010, with a 5% underwriting discount and \$325,000 of expenses (\$9.63 per share net).

	Prior to Sale Below NAV	Following Sale	% Change
<b>Offering Price</b>			
Price per share to public		\$ 10.20	
Net proceeds per share to issuer		\$ 9.63	
<b>Decrease to NAV</b>			
Total shares outstanding	25,808,772	30,808,772	19.37 %
NAV per share	\$ 11.86	\$ 11.50	(3.04)%
<b>Dilution to Non participating Stockholder A</b>			
Shares held by stockholder	25,809	25,809	
Percentage held by stockholder	0.10%	0.08%	(20.00)%
<b>Total Asset Values</b>			
Total NAV held by stockholder	\$ 306,095	\$ 296,804	(3.04)%
Total investment by stockholder (assumed to be \$11.86 per share)	\$ 306,095	\$ 306,095	
Total dilution to stockholder (total NAV less total investment)		\$ (9,291)	
<b>Per Share Amounts</b>			
NAV per share held by stockholder	\$ 11.86	\$ 11.50	(3.04)%
Investment per share held by stockholder	\$ 11.86	\$ 11.86	
Dilution per share held by stockholder (NAV per share less investment per share)		\$ (0.36)	(3.04)%

**Impact on Existing Stockholders who Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate

**Table of Contents**

share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following chart illustrates the level of dilution and accretion in the offering for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 2,500 shares, which is 0.05% of the offering rather than its 0.10% proportionate share) and (2) 150% of such percentage (i.e., 7,500 shares, which is 0.15% of the offering rather than its 0.10% proportionate share). The table below is shown based upon financial information as of December 31, 2009. NAV has not been finally determined for any day after December 31, 2009. The following example assumes a sale of 5,000,000 shares at \$10.20 per share, which was the last reported closing price of our common stock on February 26, 2010, with a 5% underwriting discount and commissions and \$325,000 of expenses (\$9.63 per share net).

	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
<b>Offering Price</b>					
Price per share to public		\$ 10.20		\$ 10.20	
Net proceeds per share to issuer		\$ 9.63		\$ 9.63	
<b>Increases in Shares and Decrease to NAV</b>					
Total shares outstanding	25,808,772	30,808,772	19.37%	30,808,772	19.37%
NAV per share	\$ 11.86	\$ 11.50	(3.04)%	\$ 11.50	(3.04)%
<b>(Dilution)/Accretion to Participating Stockholder A</b>					
Shares held by stockholder	25,809	28,309	9.69%	33,309	29.06%
Percentage held by stockholder	0.10%	0.09%	(10.00)%	0.11%	10.00%
<b>Total Asset Values</b>					
Total NAV held by stockholder	\$ 306,095	\$ 325,554	6.36%	\$ 383,054	25.14%
Total investment by stockholder (assumed to be \$11.86 per share on shares held prior to sale)	\$ 306,095	\$ 331,595	8.33%	\$ 382,595	24.99%
Total (dilution)/accretion to stockholder (total NAV less total investment)		(6,041)		\$ 459	
<b>Per Share Amounts</b>					
NAV per share held by stockholder	\$ 11.86	\$ 11.50	(3.04)%	\$ 11.50	(3.04)%
Investment per share held by stockholder (assumed to be \$11.86 per share on shares held prior to sale)	\$ 11.86	\$ 11.71	(1.26)%	\$ 11.49	(3.12)%
(Dilution)/accretion per share held by stockholder (NAV per share less investment per share)		\$ (0.21)	(1.79)%	\$ 0.01	0.09%

**Table of Contents****Impact on New Investors**

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

The following chart illustrates the level of dilution or accretion for new investors that will be experienced by a new investor who purchases the same percentage (0.10%) of the shares in the offering as the stockholder in the prior examples held immediately prior to the offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases. It is not possible to predict the level of market price decline that may occur. The table below is shown based upon financial information as of December 31, 2009. NAV has not been finally determined for any day after December 31, 2009. The following example assumes a sale of 5,000,000 shares at \$10.20 per share, which was the last reported closing price of our common shares on February 26, 2010, with a 5% underwriting discount and commissions and \$325,000 of expenses (\$9.63 per share net).

	Prior to Sale Below NAV	Following Sale	% Change
<b>Offering Price</b>			
Price per share to public		\$ 10.20	
Net proceeds per share to issuer		\$ 9.63	
<b>Decrease to NAV</b>			
Total shares outstanding	25,808,772	30,808,772	19.37%
NAV per share	\$ 11.86	\$ 11.50	(3.04)%
<b>Accretion to New Stockholder A</b>			
Shares held by stockholder		5,000	
Percentage held by stockholder		0.02%	
<b>Total Asset Values</b>			
Total NAV held by stockholder		\$ 57,500	
Total investment by stockholder		\$ 51,000	
Total accretion to stockholder (total NAV less total investment)		\$ 6,500	
<b>Per Share Amounts</b>			
NAV per share held by stockholder		\$ 11.50	
Investment per share held by stockholder		\$ 10.20	
Accretion per share held by stockholder (NAV per share less investment per share)		\$ 1.30	12.75%

**Table of Contents****SELECTED FINANCIAL DATA**

We have derived the quarterly and annual financial information below from our audited and unaudited financial data and, in the opinion of management, such information reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such periods. The Statement of operations data, Per share data and Balance sheet data for the years ended September 30, 2009 and 2008, and for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our financial statements which have been audited by KPMG LLP, our independent registered public accounting firm. This selected financial data for the periods ended September 30, 2009, 2008 and 2007 should be read in conjunction with our financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations and Regulation Senior Securities in the accompanying prospectus. Interim results as of and for the three months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. This selected financial data for the three months ended December 31, 2009 should be read in conjunction with our financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in the accompanying prospectus.

	Three months ended December 31, 2009	Year ended September 30, 2009	Year ended September 30, 2008	For the period from January 11, 2007 (inception) through September 30, 2007
(Dollar amounts in thousands, except per share data)	Unaudited	Audited	Audited	Audited
<b>Statement of operations data:</b>				
Total investment income	\$ 13,599	\$ 45,119	\$ 39,811	\$ 13,107
Net expenses before base management fee waiver	6,361	22,400	21,676	6,444
Net expenses after base management fee waiver <sup>(1)</sup>	6,361	22,400	21,255	5,803
Net investment income	7,238	22,719	18,556	7,304
Net realized and unrealized gain (loss)	1,438	13,083	(59,259)	(24,004)
Net increase/(decrease) in net assets resulting from operations	8,676	35,802	(40,703)	(16,699)
<b>Per share data:</b>				
Net asset value (at period end)	11.86	11.85	10.00	12.83
Net investment income <sup>(2)</sup>	0.28	1.08	0.88	0.35
Net realized and unrealized gain (loss) <sup>(2)</sup>	0.06	0.62	(2.81)	(1.15)
Net increase/(decrease) in net assets resulting from operations <sup>(2)</sup>	0.34	1.70	(1.93)	(0.80)
Distributions declared <sup>(2),(6)</sup>	(0.25)	(0.96)	(0.90)	(0.36)
<b>Balance sheet data (at period end):</b>				
Total assets	526,898	512,381	419,811	555,008
Total investment portfolio	513,141	469,760	372,148	291,017
Borrowings outstanding	201,914 <sup>(5)</sup>	175,475 <sup>(5)</sup>	202,000	10,000
Payable for investments and unfunded investments	6,455	25,821		273,334
Total net asset value	306,148	300,580	210,728	270,393
<b>Other data:</b>				
Total return <sup>(3)</sup>	12.95%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end) <sup>(4)</sup>	44	42	37	38
Yield on debt portfolio (at period end) <sup>(4)</sup>	11.3%	11.4%	11.1%	10.1%

**Table of Contents**

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

**Selected Quarterly Data (Unaudited)**

(dollar amounts in thousands, except per share data)

	<b>2010</b>
	<b>Q1</b>
Total investment income	\$ 13,599
Net investment income (loss)	\$ 7,238
Net realized and unrealized gain (loss)	\$ 1,438
Net increase (decrease) in net assets resulting from operations	\$ 8,676
Earnings per common share	\$ 0.34
Net asset value per share at the end of the quarter	\$ 11.86
Market value per share at the end of the quarter	\$ 8.92

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

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

**Table of Contents**

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

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

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



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

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

Name	Number of Shares
J.P. Morgan Securities Inc.	
Robert W. Baird & Co. Incorporated	
Stifel, Nicolaus & Company, Incorporated	
SunTrust Robinson Humphrey, Inc.	
BMO Capital Markets Corp.	
FBR Capital Markets & Co.	
Janney Montgomery Scott LLC	
Keefe, Bruyette & Woods, Inc.	
<b>Total</b>	<b>5,000,000</b>

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

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

**Commissions and Discounts**

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

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters' overallotment option to purchase up to an additional 750,000 shares.

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

## **Table of Contents**

We estimate that the total expenses of the offering payable by us, not including underwriting discounts and commissions, will be approximately \$325,000.

### **Overallotment Option**

We have granted an option to the underwriters to purchase up to 750,000 additional shares at the public offering price less the underwriting discount. J.P. Morgan Securities Inc., on behalf of the underwriters, may exercise this option for 30 days from the date of this prospectus supplement solely to cover any overallotments. If the underwriters exercise this option, they will be obligated, subject to conditions contained in the underwriting agreement, to purchase the additional shares approximately proportionate to that underwriter's initial purchase commitment.

### **No Sales of Similar Securities**

We have agreed, with exceptions, not to sell or transfer any common stock for 60 days after the date of this prospectus without first obtaining the written consent of J.P. Morgan Securities Inc.

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

offer, pledge, sell or contract to sell any common stock,

sell any option or contract to purchase any common stock,

purchase any option or contract to sell any common stock,

grant any option, right or warrant for the sale of any common stock,

lend or otherwise dispose of or transfer any common stock,

request or demand that we file a registration statement related to the common stock, or

enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

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

### **Quotation on the NASDAQ Global Select Market**

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

### **Price Stabilization and Short Positions**

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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

If the underwriters create a short position in the common stock in connection with the offering, (i.e., if they sell more shares than are listed on the cover of this prospectus supplement), the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option described above. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the over-allotment option.

S-20

## **Table of Contents**

Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

Neither we nor the underwriters make any representation or prediction as to the magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor the underwriters makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

## **Electronic Delivery**

The underwriters may make prospectuses available in electronic (PDF) format. A prospectus in electronic (PDF) format may be made available on a web site maintained by the underwriters, and the underwriters may distribute such prospectuses electronically. The underwriters may allocate a limited number of shares for sale to their online brokerage customers.

## **Other Relationships**

The underwriters and their affiliates have provided in the past to PennantPark Investment and may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to PennantPark Investment for which they will be entitled to receive separate fees. In particular, the underwriters or their affiliates may execute transactions with or on behalf of PennantPark Investment. In addition, the underwriters or their affiliates may act as arrangers, underwriters or placement agents for companies whose securities are sold to PennantPark Investment.

The underwriters or their affiliates may also trade in our securities, securities of our portfolio companies or other financial instruments related thereto for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to PennantPark Investment or any of the portfolio companies.

We may purchase securities of third parties from the underwriters or their affiliates after the offering. However, we have not entered into any agreement or arrangement regarding the acquisition of any such securities, and we may not purchase any such securities. We would only purchase any such securities if, among other things, we identified securities that satisfied our investment needs and completed our due diligence review of such securities.

After the date of this prospectus supplement, the underwriters and their affiliates may from time to time obtain information regarding specific portfolio companies or us that may not be available to the general public. Any such information is obtained by the underwriters and their affiliates in the ordinary course of its business and not in connection with the offering of the common stock. In addition, after the offering period for the sale of our common stock, the underwriters or their affiliates may develop analyses or opinions related to PennantPark Investment or our portfolio companies and buy or sell interests in one or more of our portfolio companies on behalf of their proprietary or client accounts and may engage in competitive activities. There is no obligation on behalf of these parties to disclose their respective analyses, opinions or purchase and sale activities regarding any portfolio company or regarding PennantPark Investment to our stockholders.

Affiliates of certain of the underwriters serve as lenders under our credit facility. Some of the underwriters and their affiliates were underwriters in connection with our initial public offering for which they received customary fees. Affiliates of the underwriters may receive part of the proceeds of the offering by reason of the repayment of certain amounts outstanding under our credit facility.

The principal business address of the underwriters are: J.P. Morgan Securities Inc. is 383 Madison Ave., New York, NY 10179; Robert W. Baird & Co. Incorporated is 777 E. Wisconsin Avenue, Milwaukee, WI 53202; Stifel, Nicolaus & Company, Inc., 501 N. Broadway, St. Louis, Missouri 63102; and SunTrust Robinson Humphrey, Inc. is 3333 Peachtree Rd., NE, Atlanta, GA 30326.

## Table of Contents

### MANAGEMENT

Our business and affairs are managed under the direction of our board of directors. The board of directors currently consists of five members, four of whom are not interested persons of PennantPark Investment as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our board of directors elects our officers, who serve at the discretion of the board of directors.

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

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

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

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

**Table of Contents**

**Directors Qualifications and Experience**

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

S-23

**Table of Contents**

**LEGAL MATTERS**

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

S-24

---

**Table of Contents**

**PROSPECTUS**

**\$250,000,000**

**Common Stock**

**Preferred Stock**

**Warrants**

**Subscription Rights**

**Debt Securities**

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

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

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

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$250,000,000 of our common stock, preferred stock, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities or subscription rights, which we refer to, collectively, as the "securities." We may sell our common stock through underwriters, or dealers, at-the-market to or through a market maker, into an existing trading market or on an exchange or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders, or (3) under such circumstances as the Securities and Exchange Commission, or the SEC, may permit. On February 2, 2010, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending February 2, 2011. See "Risk Factors" on page 9 and "Sales of Common Stock Below Net Asset Value" on page 50 of this prospectus for more information.

Our common stock has been approved for quotation on NASDAQ Global Select Market under the symbol "PNNT". The last reported closing price for our common stock on February 17, 2010 was \$10.10 per share and our net asset value on December 31, 2009 was \$11.86 per share.

This prospectus and any accompanying prospectus supplement contain important information you should know before investing in our securities. Please read them before you invest and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 590 Madison Avenue, New York, NY 10022 or by telephone at (212) 905-1000 or on our website at [www.pennantpark.com](http://www.pennantpark.com). The information on our website is not incorporated by reference into this prospectus. The SEC also maintains a website at [www.sec.gov](http://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 9 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 February 24, 2010**

**Table of Contents**

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

**TABLE OF CONTENTS**

	<b>Page</b>
<u>PROSPECTUS SUMMARY</u>	1
<u>FEES AND EXPENSES</u>	7
<u>RISK FACTORS</u>	9
<u>FORWARD-LOOKING STATEMENTS</u>	30
<u>USE OF PROCEEDS</u>	31
<u>SELECTED FINANCIAL DATA</u>	32
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	34
<u>SENIOR SECURITIES</u>	49
<u>PRICE RANGE OF COMMON STOCK</u>	50
<u>SALES OF COMMON STOCK BELOW NET ASSET VALUE</u>	51
<u>DISTRIBUTIONS</u>	56
<u>BUSINESS</u>	58
<u>INVESTMENT OBJECTIVES AND POLICIES</u>	62
<u>PORTFOLIO COMPANIES</u>	69
<u>MANAGEMENT</u>	74
<u>CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS</u>	79
<u>CERTAIN RELATIONSHIPS AND TRANSACTIONS</u>	81
<u>DETERMINATION OF NET ASSET VALUE</u>	86
<u>DIVIDEND REINVESTMENT PLAN</u>	89
<u>DESCRIPTION OF OUR CAPITAL STOCK</u>	90
<u>DESCRIPTION OF OUR PREFERRED STOCK</u>	96
<u>DESCRIPTION OF OUR WARRANTS</u>	97
<u>DESCRIPTION OF OUR SUBSCRIPTION RIGHTS</u>	99
<u>DESCRIPTION OF OUR DEBT SECURITIES</u>	100
<u>REGULATION</u>	113
<u>BROKERAGE ALLOCATIONS AND OTHER PRACTICES</u>	118
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	119
<u>PLAN OF DISTRIBUTION</u>	124
<u>CUSTODIAN, TRANSFER AGENT AND TRUSTEE</u>	126
<u>LEGAL MATTERS</u>	126
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	126
<u>PRIVACY PRINCIPLES</u>	126
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1
<u>PART C OTHER INFORMATION</u>	C-1
<u>SIGNATURES</u>	C-5

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to \$250,000,000 of our common stock, preferred stock, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities and subscription rights to purchase common stock on the terms to be determined at the time of the offering. We may sell our common stock through underwriters, or dealers, at-the-market to or through a market maker, into an existing trading market or on an exchange or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. The information contained in this prospectus is accurate only as of the date on the front of this prospectus and our business, financial condition, results of operations and prospectus may have changed since that date. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. In this prospectus and accompanying prospectus supplement, if any, except where the context suggests otherwise, the terms we, us, our and PennantPark Investment refer to PennantPark Investment Corporation; PennantPark Investment Advisers or the Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or the Administrator refers to PennantPark Investment Administration, LLC.*

**PennantPark Investment Corporation**

PennantPark Investment Corporation, a Maryland corporation, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. In addition, for tax purposes we have elected to be treated as a regulated investment company ( RIC ), under the Internal Revenue Code of 1986, as amended (the Code ).

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans, and equity investments. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt, certain senior secured investments, and to a lesser extent, equity investments.

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

**About PennantPark Investment Advisers**

Our investment activities are managed by the Investment Adviser under an investment management agreement (the Investment Management Agreement ). The Investment Adviser is responsible for sourcing potential investments, conducting research on prospective investments, analyzing investment opportunities, structuring our investments and monitoring our investments on an ongoing basis. The Investment Adviser is led by Arthur H. Penn, its founder and the founder of PennantPark Investment. Mr. Penn has over 23 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. He has been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in each of these businesses. Mr. Penn is a Co-founder and former Managing Partner of Apollo Investment Management, L.P., or Apollo Investment Management, which is the Investment Adviser of Apollo Investment Corporation, or Apollo Investment, a publicly traded business development company. Mr. Penn served as the Chief Operating Officer and a member of the investment committee of Apollo Investment from its inception in April 2004 through February 2006 and was President and Chief Operating Officer from February 2006 through November 2006. During Mr. Penn's tenure with Apollo Investment, it invested approximately \$2.8 billion in 73 companies in partnership with 54 different financial sponsors.

## **Table of Contents**

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

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

## **About PennantPark Investment Administration**

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

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

## **Market Opportunity**

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

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

**We believe that the current credit market dislocation improves the risk/reward of our investments.** The downturn in the credit market has resulted in less competition, more conservative capital structures, higher yields and stronger covenants.

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

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

## **Table of Contents**

### **Competitive Advantage**

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

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

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

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

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

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

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

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

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

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

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

## **Table of Contents**

### **Competition**

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

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

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

### **Leverage**

We maintain a five-year, multi-currency \$300.0 million senior secured credit facility, which matures in 2012 and is secured by substantially all of our investment portfolio assets, with a group of lenders, under which we had \$245.7 million and \$225.1 million (including a \$7.0 million temporary draw) of indebtedness outstanding at December 31, 2009 and September 30, 2009, respectively. Pricing of borrowings under our credit facility is set at 100 basis points over LIBOR. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise.

### **Operating and Regulatory Structure**

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

As a business development company, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See Regulation. We have elected to be treated for federal income tax purposes under the Internal Revenue Code of 1986, or the Code, as a regulated investment company, or RIC. For more information, see Material U.S. Federal Income Tax Considerations.

### **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, or for other

## **Table of Contents**

general corporate purposes. Any supplements to this prospectus relating to an offering may more fully identify the use of the proceeds from such offering. See [Use of Proceeds](#) for information regarding our outstanding borrowings as of December 31, 2009, the corresponding interest rate charged on such borrowings as of that date and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.

### **Dividends on Common Stock**

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

### **Dividends on Preferred Stock**

We may issue preferred stock from time to time, although we have no immediate intention to do so. Any such preferred stock will be a senior security for purposes of the 1940 Act and, accordingly, subject to the leverage test under that Act. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock will be quarterly and for any auction rate preferred stock, or ARPS, will be weekly and subject to extension. With respect to ARPS, we expect the dividend rate to be variable and determined for each dividend period. See [Risk Factors](#) [Risks Related to Issuance of our Preferred Stock](#).

### **Dividend Reinvestment Plan**

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

### **Plan of Distribution**

We may offer, from time to time, up to \$250 million of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. We may sell our common stock through underwriters, or dealers, [at-the-market](#) to or through a market maker, into an existing trading market or on an exchange 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., or 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. For more information, see [Plan of Distribution](#).



## **Table of Contents**

### **Recent Developments**

On February 2, 2010, our common stockholders voted to allow us to issue common stock at a price below the net asset value per share for a period of one year ending February 2, 2011. Our stockholders did not specify a maximum discount below net asset value at which we are able to issue our common stock; however we do not intend to issue shares of our common stock below net asset value unless our board of directors determines that it would be in our stockholders' best interest to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We will describe the risks and dilutive effects of any offering that we make at a price below our then current net asset value in a prospectus supplement issued in connection with any such offering. See "Sales of Common Stock Below Net Asset Value" in this prospectus for more information.

### **Our Corporate Information**

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

**Table of Contents****FEES AND EXPENSES**

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

<b>Stockholder transaction expenses</b>	
Sales load (as a percentage of offering price)	%(1)
Offering expenses (as a percentage of offering price)	%(2)
<b>Total common stockholder expenses (as a percentage of offering price)</b>	<b>%</b>
<b>Estimated annual expenses (as a percentage of net assets attributable to common shares)(3)</b>	
Management fees	3.44%(4)
Incentive fees payable under the Investment Management Agreement	2.36%(5)
Interest payments on borrowed funds	1.07%(6)
Other expenses	1.44%(7)
<b>Total annual expenses</b>	<b>8.31%(8)</b>

- (1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.
- (3) Net assets attributable to common shares equals net assets at December 31, 2009.
- (4) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross total assets. See Certain Relationships and Transactions Investment Management Agreement.
- (5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred during the three months ended December 31, 2009. Such incentive fees are based on performance, vary from year to year, and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended December 31, 2009. For more detailed information about the incentive fee, please see the section of this prospectus captioned Certain Relationships and Transactions Investment Management Agreement and Note 3 to our financial statements included in this prospectus.
- (6) As of December 31, 2009, we had \$54.3 million unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio of 200%, and \$245.7 million in borrowings outstanding under our \$300.0 million credit facility. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our credit facility. After completing any such offering,

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

we may continue to borrow under our credit facility to finance portfolio investments and are permitted to do so under the terms of our credit facility. We have estimated the interest payments on borrowed funds to take this into account, however, we caution you that our actual interest expense will depend on prevailing interest rates

**Table of Contents**

and our rate of borrowing and may be substantially higher than the estimate provided in this table. For more information, 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.

- (7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the three months ended December 31, 2009. See the Statement of Operations in our 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 the total assets, including assets that have been funded with borrowed monies. If the total annual expenses percentage were calculated instead as a percentage of total assets, our total annual expenses would be 4.83% of total assets. For a presentation and calculation of total annual expenses based on total assets, see page 36 of this prospectus.

**Example**

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a \$1,000 hypothetical investment in common shares, assuming (1) a 5.00% sales load (underwriting discounts and commissions) and offering expenses totaling 0.60%, (2) total net annual expenses of 5.95% of net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	\$ 112	\$ 222	\$ 330	\$ 592

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 additional information regarding our dividend reinvestment plan in this prospectus.

**Table of Contents**

**RISK FACTORS**

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

**RISKS RELATING TO OUR BUSINESS AND STRUCTURE**

**Global capital markets have entered a period of severe disruption and instability. These market conditions have materially and adversely affected debt and equity capital markets in the United States, which has had, and may continue to have, a negative impact on our business and operations.**

Beginning in the summer of 2007 and continuing as of the date of this prospectus, the U.S. capital markets have experienced a period of disruption characterized by the freezing of credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. As a result of these events, general economic conditions have 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 has been reduced significantly. These conditions could continue for a prolonged period of time or even materially worsen in the future. While these conditions persist, we may have difficulty accessing debt and equity capital in order to grow and may suffer material adverse effects 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 respective investments to maturity. Volatility or dislocation in the capital markets may depress our stock price below our net asset value per share and create a challenging environment in which to raise debt and equity capital. As a business development company, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. Additionally, our ability to incur indebtedness is limited by applicable regulations such that our asset coverage under the 1940 Act must equal at least 200% of total indebtedness immediately after each time we incur indebtedness. Shrinking portfolio values negatively impact our ability to borrow additional funds under our credit facility because our net asset value is reduced for purposes of the 200% asset leverage test. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a business development company and materially impair our business operations. A protracted disruption in the credit markets could also materially decrease demand for our investments.

The significant disruption in the capital markets has had and may continue to have a negative effect on the valuations of our investments, and on the potential for liquidity events involving our investments. The debt capital that will be available to us, if at all, may be at a higher cost and on less favorable terms and conditions in the future. A prolonged inability to raise capital will require us to reduce the volume of loans we originate and/or fund 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

## **Table of Contents**

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.

### **Current market developments may adversely affect our business and results of operations by reducing availability under our credit facility.**

In addition to the applicable asset coverage test that restricts our ability to borrow under our credit facility, this facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations. Our borrowings under our credit facility are collateralized by the assets in our investment portfolio. 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.

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.

### **We rely in part on our senior secured investments to provide us with adequate liquidity, but even these investments may face liquidity constraints under current or future market conditions.**

The market for senior secured debt investments and other over-the-counter traded securities has weakened as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the investments, which has decreased under current market conditions and may do so again in the future. We cannot assure you that in the event we need to sell our senior secured investments to raise capital, we will be able to do so at prices we deem to be attractive, or at all.

### **PennantPark Investment incurs credit risk when it loans money or commits to loan money to a portfolio company.**

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

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

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

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide determination of our board of directors, then, at fair value as determined in good faith by or under the direction of

## **Table of Contents**

our board of directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. The fair value of our portfolio companies on the whole has decreased substantially over the past three fiscal years. 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.

### **In the past following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company.**

If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

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

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

### **We have a limited operating history.**

We were incorporated in January 2007. We are subject to all of the business risks and uncertainties associated with any relatively new business, including the risk that we will not achieve our investment objectives and that the value of our common stock could decline substantially. We have used, and will continue to use, the proceeds of public offerings of securities and of borrowings under our credit facility in accordance with our investment objectives.

### **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 any manager of PennantPark Investment Advisers could have a material adverse effect on our ability to achieve our investment objectives. In addition, we can offer no assurance that PennantPark Investment Advisers will remain our Investment Adviser.

## **Table of Contents**

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

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

### **We operate in a highly competitive market for investment opportunities.**

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

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

### **PennantPark Investment may not replicate the historical performance of other investment companies with which our investment professionals have been affiliated.**

The 1940 Act imposes numerous constraints on the investment activities of business development companies. For example, business development companies are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded public companies with a market capitalization of less than \$250 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. These constraints may hinder our Investment Adviser's ability to take advantage of attractive investment opportunities and to achieve our investment objectives. Current market conditions and



## **Table of Contents**

the depressed economic cycle present significant challenges to us that have not been present in recent years, if ever. In addition, the investment philosophy and techniques used by our Investment Adviser may differ from those used by other investment companies. Accordingly, we can offer no assurance that PennantPark Investment will replicate the historical performance of other investment companies our investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

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

If we do not remain a business development company, we might be regulated as a closed-end registered investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility.

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

We have operated so as to qualify as a RIC under Subchapter M of the Code. If we meet source-of-income, quarterly asset diversification, and distribution requirements, we generally will not be subject to corporate-level income 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 offset 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 we do not distribute. If we do not distribute at least 98% of our annual taxable income (excluding net long-term capital gains retained or deemed to be distributed) in the year earned, we generally will be required to pay an excise tax on amounts carried over and distributed to shareholders in the next year equal to 4% of the amount by which 98% of our annual taxable income available for distribution exceeds the distributions from such income for the current year.

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

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

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

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

## Table of Contents

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

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock, the issuance of warrants or subscription rights to purchase certain of our securities, or from securitization transactions. 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 or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such issuance or incurrence. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous, which could materially damage our business.

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

*Additional Common Stock.* Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a business development company, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our board of directors. We obtained such approval from our shareholders in February 2010, which will remain in effect for twelve months. Also, subject to the requirements of the 1940 Act, we may issue rights to acquire our common stock at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, we note that for us to file a post-effective amendment to a registration statement on Form N-2, we must then be qualified to register our securities on Form S-3. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.

*Securitization.* In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. We would retain all or a portion of the equity in the securitized pool of loans. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of

## **Table of Contents**

equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We would not treat the debt issued by such a subsidiary as senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any.

Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses.

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

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

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

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

We currently utilize a revolving five-year, \$300.0 million credit facility to make investments in our portfolio companies. Our credit facility expires in June 2012. The life of our investments typically exceeds the duration of our indebtedness under our credit facility. This means that we will have to extend the maturity of our credit facility or refinance our indebtedness under our credit facility in order to continue to maintain control over our portfolio assets. In addition, under current market conditions, we believe it will be difficult to renew or refinance our credit facility on terms as favorable as those in our existing credit facility. In particular, market interest rates have escalated significantly for borrowers within our industry since we entered into our credit facility in June 2007. If we fail to refinance the indebtedness outstanding under our credit facility at the time it becomes due and payable, the administrative agent of the credit facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the credit facility, subject to certain restrictions. The illiquidity of our investments may make it difficult for us to sell such investments. If we are required to sell our investments on short-term notice, we may not receive the value that we have recorded for such investments, and this could materially damage our results of operations.

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

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

**Table of Contents**

As of December 31, 2009 we had outstanding borrowings of \$245.7 million under our credit facility with a weighted average annual interest rate at that time of 1.23% exclusive of the fee on undrawn commitment of 0.20%. Accordingly, to cover the annual interest on our borrowings outstanding at December 31, 2009, at the then current rate, we would have to receive an annual yield of at least 0.6%. This example is for illustrative purposes only, and actual interest rates on our credit facility borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee payable to our Investment Adviser, will be borne by our common stockholders.

As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock we may issue in the future, of at least 200%. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions.

The following table is designed to illustrate the effect on return to a holder of our common stock of the leverage created by our use of borrowing at December 31, 2009 of 38% of our total assets (including such borrowed funds), at a weighted average rate at the time of 1.23%, and assuming hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. 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) <sup>(1)</sup>	-10.0%	-5.0%	0	5.0%	10.0%
Corresponding return to common stockholders <sup>(2)</sup>	-18.2%	-9.6%	-1.0%	7.6%	16.2%

(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.

The table also assumes that we will maintain a constant level of leverage. The amount of leverage that we use will vary from time to time.

**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 December 31, 2009, the applicable LIBOR rate has decreased from 5.3% to 0.3%. In periods of rising interest rates, our cost of funds will increase, which could reduce our net investment income. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions, and we will initially have to purchase or develop such expertise. See Management's Discussion and Analysis of Financial Conditions and Results of Operations Quantitative and Qualitative Disclosures about Market Risk.

## **Table of Contents**

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. For a definition of Pre-Incentive Fee Net Investment Income, see *Certain Relationships and Transactions Investment Management Agreement* in this prospectus.

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, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high-yield bonds, and also would increase our interest expense, thereby decreasing our net income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

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

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

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

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

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

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock and/or debt securities would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of

## **Table of Contents**

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

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

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

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

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

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

the time remaining to the maturity of these debt securities;

the outstanding principal amount of debt securities with terms identical to these debt securities;

the supply of debt securities trading in the secondary market, if any;

the redemption or repayment features, if any, of these debt securities;

the level, direction and volatility of market interest rates generally; and

market rates of interest higher or lower than rates borne by the debt securities.

There also may be a limited number of buyers for our debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

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

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

Our credit ratings 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.

## **Table of Contents**

### **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 rights offering or what proportion of our common stock will be purchased as a result of any such offering.

### **We may experience fluctuations in our quarterly results.**

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. However, as a result of our irrevocable election to apply the fair value option to our credit facility future decreases of fair value of our debt will have a corresponding increase to our net asset value. Further increases of fair value of our debt will have the opposite effect. This will tend to mitigate volatility in our earnings. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

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

The professionals of our Investment Adviser and Administrator may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by affiliates of PennantPark Investment that may be formed in the future. The Investment Adviser and the Administrator have not yet undertaken any such services, but may do so 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.

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.



## **Table of Contents**

We have entered into a license agreement (the "License Agreement") with PennantPark Investment Advisers, pursuant to which our Investment Adviser has agreed to grant us a royalty-free non-exclusive license to use the name "PennantPark". Under the License Agreement, we will have the right to use the "PennantPark" name for so long as the Investment Adviser or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we have no legal right to the "PennantPark" name. In addition, we pay PennantPark Investment Administration, an affiliate of the Investment Adviser, our allocable portion of overhead and other expenses incurred by PennantPark Investment Administration in performing its obligations under our Administration Agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs. These arrangements may create conflicts of interest that our board of directors must monitor.

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

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

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

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

## **RISKS RELATING TO THE ILLIQUID NATURE OF OUR PORTFOLIO ASSETS**

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

All of our investments are recorded using broker/dealers quotes, or at fair value as determined in good faith by our board of directors. We expect that most, if not all, of our investments (other than cash and cash equivalents) and credit facility borrowings will be classified as *Level 3* under ASC 820 (formerly known as SFAS No. 157). 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.

## **Table of Contents**

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

At December 31, 2009, most of our portfolio assets were recorded at fair value as determined in good faith by our board of directors. As we invest a greater percentage of our total assets in core assets, more of our portfolio assets will be recorded at fair value as determined in good faith by our board of directors. Our board of directors uses the services of one or more nationally recognized independent valuation firms to aid it in determining the fair value of these securities. The factors that may be considered in fair value pricing of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Because valuations may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Additionally, valuations of private securities and private companies are inherently uncertain. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

We may acquire our core 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, recapitalization, 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 current market developments in which investor appetite for illiquid securities has substantially diminished. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

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

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

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

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

## **Table of Contents**

**We rely in part on our senior secured securities to provide us with adequate liquidity, but even these securities face liquidity constraints under current market conditions.**

The market for senior secured debt securities and other over-the-counter traded securities has weakened as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities. This demand has slackened under current market conditions.

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

*Mezzanine Debt:* Our mezzanine debt investments will generally be subordinated to senior secured loans and will generally be unsecured or have a subordinated secured interest. 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.

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

*Equity Investments:* We have made and expect to continue to make selected equity investments. In addition, when we invest in mezzanine debt or senior secured loans, 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;

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;

## Table of Contents

they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our Investment Adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

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

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

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 stakeholdings in 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.

## **Table of Contents**

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

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

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

### **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 may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments.

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

### **Because we do not generally hold controlling equity interests in our portfolio companies, we may not be 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.**

Although we may do so in the future, we do not currently have controlling equity positions in our portfolio companies. As a result, 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.

## **Table of Contents**

**An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available 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 money on our investments.

Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could materially adversely affect our investment returns as compared to companies investing primarily in the securities of public companies.

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

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

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

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

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

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

## **Table of Contents**

investment companies under our Investment Management Agreement. With respect to any such investments, each of our stockholders will bear his or her share of the investment advisory fees of PennantPark Investment Advisers as well as indirectly bearing the investment advisory fees and other expenses of any investment companies in which we invest.

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

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

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

Our investment strategy contemplates potential investments in securities of companies located outside of the United States, 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.

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

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

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect

## **Table of Contents**

correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

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

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

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

### **RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK**

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

On February 2, 2010 our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of 12 months. This proposal would allow us to access the capital markets in a way that we were previously unable to as a result of restrictions that, absent stockholder approval, apply to business development company under the 1940 Act. Any decision to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings is subject to the determination by our board of directors that such issuance and sale is in our and our stockholders best interests.

Any sale or other issuance of shares of our common stock at a price below net asset value per share would result in an immediate dilution to your interest in our common stock and a reduction of our net asset value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of shares of common stock that may be issued below our net asset value per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our net asset value per share of any such issuance



## **Table of Contents**

at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering.

We may offer our shares of common stock in a public offering at-the-market to a select group of investors, in which case you may not be able to participate in such offering and you will experience dilution unless you purchase additional shares of our common stock in secondary market at the same or lower price.

**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 result, such earnings and gains will not be available to fund new investments.

As a business development company, we generally are required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200% of indebtedness. This requirement limits the amount we may borrow. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments or sell additional common stock and, depending on the nature of our leverage, to repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous. In addition, the issuance of additional securities could dilute the percentage ownership of our current stockholders in us. If we fail to obtain additional capital to fund our investments, this could limit our ability to grow and have an adverse effect on the value of our securities.

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

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

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

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

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

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

## **Table of Contents**

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

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares. Our shares have traded above and below our NAV. Our shares traded on NASDAQ Global Select Market at \$8.92 and \$8.11 as of December 31, 2009 and September 30, 2009, respectively. Our NAV was \$11.86 and \$11.85, as of December 31, 2009 and September 30, 2009, respectively. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

### **The market price of our common stock may fluctuate significantly.**

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

significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;

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

any loss of RIC status;

changes in earnings or variations in operating results;

changes in the value of our portfolio of investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the inability of our Investment Adviser to employ additional experienced investment professionals or the departure of any of the Investment Adviser's key personnel;

operating performance of companies comparable to us;

general economic trends and other external factors; and

loss of a major funding source.

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

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

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

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

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

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

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

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

our future operating results;

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

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

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

the impact of investments that we expect to make;

the impact of fluctuation in interest rates on our business;

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

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

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

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 497

forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through supplemental prospectus that we in the future may file with the Securities and Exchange Commission, or the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

**Table of Contents**

**USE OF PROCEEDS**

We may use the net proceeds from selling securities pursuant to this prospectus to reduce outstanding obligations under our credit facility and any such use may dilute our net asset value per share. We may also use such proceeds to invest in new or existing portfolio companies, or for other general corporate purposes. Any supplements to this prospectus relating to an offering may more fully indentify the use of the proceeds from such offering.

As of December 31, 2009, we had \$54.3 million unused and \$245.7 million in borrowings outstanding under our \$300.0 million credit facility. Borrowings under our credit facility bear interest at an annual rate equal to LIBOR + 100 basis points per annum. At December 31, 2009, this corresponded to a weighted average interest rate at that time of 1.23% exclusive of the fee on undrawn commitment of 0.20%. The credit facility is a five-year revolving facility with a stated maturity date of June 25, 2012 and is secured by substantially all of the assets in our investment portfolio. Amounts repaid under our credit facility will remain available for future borrowings.

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

**Table of Contents****SELECTED FINANCIAL DATA**

We have derived the quarterly and annual financial information below from our audited and unaudited financial data and, in the opinion of management, such information reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such periods. The Statement of operations data, Per share data and Balance sheet data for the years ended September 30, 2009 and 2008, and for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our financial statements which have been audited by KPMG LLP, our independent registered public accounting firm. Interim results as of and for the three months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. This selected financial data should be read in conjunction with our financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations and Regulation Senior Securities in this prospectus.

	Three months ended December 31, 2009 Unaudited	Year ended September 30, 2009 Audited	Year ended September 30, 2008 Audited	For the period from January 11, 2007 (inception) through September 30, 2007 Audited
<b>(Dollar amounts in thousands, except per share data)</b>				
<b>Statement of operations data:</b>				
Total investment income	\$ 13,599	\$ 45,119	\$ 39,811	\$ 13,107
Net expenses before base management fee waiver	6,361	22,400	21,676	6,444
Net expenses after base management fee waiver <sup>(1)</sup>	6,361	22,400	21,255	5,803
Net investment income	7,238	22,719	18,556	7,304
Net realized and unrealized gain (loss)	1,438	13,083	(59,259)	(24,004)
Net increase/(decrease) in net assets resulting from operations	8,676	35,802	(40,703)	(16,699)
<b>Per share data:</b>				
Net asset value (at period end)	11.86	11.85	10.00	12.83
Net investment income <sup>(2)</sup>	0.28	1.08	0.88	0.35
Net realized and unrealized gain (loss) <sup>(2)</sup>	0.06	0.62	(2.81)	(1.15)
Net increase/(decrease) in net assets resulting from operations <sup>(2)</sup>	0.34	1.70	(1.93)	(0.80)
Distributions declared <sup>(2),(6)</sup>	(0.25)	(0.96)	(0.90)	(0.36)
<b>Balance sheet data (at period end):</b>				
Total assets	526,898	512,381	419,811	555,008
Total investment portfolio	513,141	469,760	372,148	291,017
Borrowings outstanding	201,914 <sup>(5)</sup>	175,475 <sup>(5)</sup>	202,000	10,000
Payable for investments and unfunded investments	6,455	25,821		273,334
Total net asset value	306,148	300,580	210,728	270,393
<b>Other data:</b>				
Total return <sup>(3)</sup>	12.95%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end) <sup>(4)</sup>	44	42	37	38
Yield on debt portfolio (at period end) <sup>(4)</sup>	11.3%	11.4%	11.1%	10.1%

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

(2) Net investment income and net realized and change in unrealized losses per share data are calculated based on the weighted average shares outstanding for the respective periods.

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

(4) Unaudited.

(5) At fair value.

(6) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under accounting principles generally accepted in the United States of America.





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

(dollar amounts in thousands, except per share data)

	<b>2010 Q1</b>
Total investment income	\$ 13,599
Net investment income (loss)	\$ 7,238
Net realized and unrealized gain (loss)	\$ 1,438
Net increase (decrease) in net assets resulting from operations	\$ 8,676
Earnings per common share	\$ 0.34
Net asset value per share at the end of the quarter	\$ 11.86
Market value per share at the end of the quarter	\$ 8.92

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

	<b>2008</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 11,431	\$ 9,662	\$ 9,714	\$ 9,004
Net investment income (loss)	\$ 5,434			