

EASTMAN KODAK CO
Form 4
February 20, 2003

Form 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

OMB APPROVAL
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Form 4 or Form 5
obligations may continue.
See instructions 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the
Public Utility Holding Company Act of 1935 or
Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person*			2. Issuer Name and Ticker or Trading Symbol		6. Relationship of Reporting Person(s) to Issuer (Check all applicable)	
Carp	Daniel	A.	Eastman Kodak Company ("EK")		<input checked="" type="checkbox"/> Director <input type="checkbox"/> 10% Owner <input checked="" type="checkbox"/> Officer (give <input type="checkbox"/> Other (specify title below) below) President and Chief Executive Officer	
(Last)	(First)	(Middle)	3. I.R.S. Identification Number of Reporting Person, if an entity (voluntary)	4. Statement for Month/Day/Year		7. Individual or Joint/Group Filing (Check Applicable Line)
Eastman Kodak Company	343 State	Street		February 18, 2003		
(Street)			5. If Amendment, Date of Original (Month/Day/Year)			
Rochester	New York					
(City)	(State)	(Zip)	Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned			

1. Title of Security (Instr. 3)	2. Transaction Date (mm/dd/yy)	2A. Deemed Execution Date, if any (mm/dd/yy)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

* If the form is filed by more than one reporting person, see Instructions 4(b)(v).

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FORM 4 (continued) **Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
Common Stock Units	1 for 1	02/18/03	A		18,611.0000		(1)	(2)	Common Stock	18,611.0000	\$30.97	18,611.0000

Explanation of Responses:

(1) These units represent restricted stock awarded under the Eastman Kodak Company 2000 Omnibus Long-term Compensation Plan and deferred under that plan as restricted stock units. The restrictions on the grant expire December 31, 2003. The units are entitled to dividend equivalents on each dividend payment date.

(2) Deferred awards will be paid out on the date or dates selected by the issuer prior to the award as required by the Internal Revenue Service and the Eastman Kodak Company 2000 Omnibus Long-term Compensation Plan.

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a). /s/ James M. Quinn, as attorney-in-fact February 20, 2003

Daniel A. Carp
**Signature of Reporting Person Date

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number.

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/TD>% 10.0%

Corresponding return to common stockholders⁽²⁾

-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.

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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

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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.

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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.

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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.

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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.

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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.

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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;

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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.

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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.

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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

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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

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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

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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.

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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.

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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.

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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

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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.

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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 identify 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
(Dollar amounts in thousands, except per share data)				
Statement of operations data:				
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 ⁽¹⁾	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)
Per share data:				
Net asset value (at period end)	11.86	11.85	10.00	12.83
Net investment income ⁽²⁾	0.28	1.08	0.88	0.35
Net realized and unrealized gain (loss) ⁽²⁾	0.06	0.62	(2.81)	(1.15)
Net increase/(decrease) in net assets resulting from operations ⁽²⁾	0.34	1.70	(1.93)	(0.80)
Distributions declared ^{(2),(6)}	(0.25)	(0.96)	(0.90)	(0.36)
Balance sheet data (at period end):				
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 ⁽⁵⁾	175,475 ⁽⁵⁾	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
Other data:				
Total return ⁽³⁾	12.95%	30.39%	(38.58)%	(8.29)%
Number of portfolio companies (at period end) ⁽⁴⁾	44	42	37	38
Yield on debt portfolio (at period end) ⁽⁴⁾	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.

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(dollar amounts in thousands, except per share data)

	2010
	Q1
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

	2009			
	Q4	Q3	Q2	Q1
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

	2008			
	Q4	Q3	Q2	Q1
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

	2007		
	Q4	Q3	Q2*
Total investment income	\$ 6,909	\$ 5,425	\$ 773
Net investment income (loss)	\$ 4,348	\$ 3,208	\$ (251)
Net realized and unrealized gain (loss)	\$ (18,870)	\$ (5,152)	\$ 18
Net 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)

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

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

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

Overview

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

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of us and PennantPark Investment Advisers. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross total assets as well as an incentive fee based on our investment performance. We have also entered into an Administration Agreement with PennantPark Investment Administration. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our chief compliance officer, chief financial officer and their respective staffs.

Our 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 debt, certain senior secured investments, and to a lesser extent equity investments. The companies in which we invest are typically highly leveraged, often as a result of leveraged buy-outs or other recapitalization transactions, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies.

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

We are currently operating in a constrained credit market. Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. The turmoil in the credit markets has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for, and valuation of, high-risk debt instruments. These conditions may present us with attractive investment opportunities, as we believe that there are many middle-market companies that need mezzanine debt and senior secured financing. However, these market conditions may also adversely affect our portfolio valuations and increase the risk of default among our portfolio companies, which could negatively impact our performance. We have used, and will continue to use, the proceeds of our public offerings of securities and of our credit facility in accordance with our investment objectives. We did not experience compromised liquidity during the recent turmoil in the global credit markets because of our ability to sell loans from our senior secured portfolio, our availability under our credit facility, and our ability to access the capital markets to issue common stock.

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Revenues

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

Expenses

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

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

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

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

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

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

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

federal, state and local taxes;

independent directors' fees and expenses;

brokerage commissions;

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

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

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

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

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

We expect our general and administrative operating expenses related to our ongoing operations to remain relatively stable or decline slightly as a percentage of our assets in future periods. Incentive fees, interest expense and costs relating to future offerings of securities would be additive.

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The SEC requires that Total Annual Expenses be calculated as a percentage of net assets in the chart on page 7 of this prospectus rather than as a percentage of total assets. Total assets include assets that have been funded with borrowed monies (leverage). For reference, the chart below illustrates our Total Annual Expenses as a percentage of total assets:

Estimated Annual Expenses (as a Percentage of Total Assets)	
Base management fees	2.00% ⁽¹⁾
Incentive fees payable under the Investment Management Agreement	1.37% ⁽²⁾
Interest payments on borrowed funds	0.62% ⁽³⁾
Other expenses	0.84% ⁽⁴⁾
Total Annual Expenses	4.83%

- (1) 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.
- (2) The portion of incentive fees paid in respect of 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 advisory and 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.
- (3) 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 proceeds of an offering of securities under this registration statement to repay outstanding obligations under our credit facility. After completing any such offering, we intend to continue to borrow under our credit facility to finance portfolio investments and are permitted to do so under the terms of our credit facility. We have estimated the interest payments on borrowed funds to take this into account. We caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing and may be substantially higher than the estimate provided in this table. For more information, see Risk Factors We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.
- (4) Other Expenses includes, among other expenses, 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 our Statement of Operations in our financial statements.

Critical Accounting Policies

The discussion of our financial condition and results of operation is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. References to the Accounting Standards Codification, or ASC, serve as a single source of accounting literature and are not intended to change accounting literature. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues

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and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our critical accounting policies in the notes to our financial statements.

Valuation of Portfolio Investments

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

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

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

- 1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;
- 2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- 3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available, or are readily available but deemed not reflective of the fair value of an investment. The independent valuation firms review management's preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;
- 4) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and that of the independent valuation firms and responds and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- 5) The board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the independent valuation firms and the audit committee.

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In September 2006, the Financial Accounting Standards Board, or FASB, issued guidance on, *Fair Value Measurements*, ASC 820 (formerly SFAS 157), which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. ASC 820 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 is effective for our fiscal year beginning October 1, 2008 and interim financial statements issued within our fiscal year ending September 30, 2009. ASC 820 did not affect our financial position or results of operations.

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. All of our investments (other than cash and cash equivalents) and long-term credit facility are classified as *Level 3*.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data 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 would result in classification as *Level 3* information, assuming no additional corroborating evidence was available.

In April 2009, the FASB issued guidance on, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, ASC 820-10-35-51A (formerly FASB Staff Position No. 157-4). ASC 820-10-35-51A amends ASC 820 to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. It emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique used, the objective of a fair value measurement remains the same that the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The guidance in ASC 820-10-35-51A is effective for periods ending after June 15, 2009. PennantPark Investment adopted ASC 820-10-35-51A on June 30, 2009, and it did not have a material impact on our financial statements.

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

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In February 2007, the FASB issued guidance on, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 115*, ASC 825 (formerly SFAS 159), that permits an entity to choose to measure many financial instruments and certain other items at fair value. ASC 825 applies to all reporting entities and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. We adopted ASC 825 on October 1, 2008 and PennantPark Investment has made an irrevocable election to apply the fair value option to our credit facility liability. The fair value option was elected for our credit facility to align the measurement attributes of both the assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Upon our adoption our net asset value increased by \$41.8 million, or \$1.99 per share, due to the fair value adjustment related to our credit facility. We have used a nationally recognized independent valuation service to measure the fair value of our credit facility in a manner consistent with the valuation process that our board of directors uses to value our investments. After adoption, subsequent changes in the fair value of our credit facility will be recorded in the statement of operations. We have not elected to apply ASC 825 to any other financial assets or liabilities. On December 31, 2009 and September 30, 2009, net unrealized depreciation on our long-term credit facility totaled \$43.8 and \$49.6 million, respectively, which included the cumulative effect of adoption of ASC 825 on our credit facility of \$41.8 million. PennantPark Investment uses a nationally recognized independent valuation service to measure the fair value of its credit facility in a manner consistent with the valuation process that the board of directors uses to value investments.

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

Revenue Recognition

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

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

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

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

Federal Income Taxes

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

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

Portfolio and Investment Activity

As of December 31, 2009, our portfolio totaled \$513.1 million and consisted of \$176.8 million of subordinated debt, \$147.1 million of second lien secured debt, \$160.7 million of senior secured loans, and \$28.5 million of preferred and common equity investments. Our core assets totaled \$478.2 million and consisted of investments in thirty-five different companies with an average investment size of \$13.7 million per company and a weighted average yield of 12.2% on debt investments. Our non-core senior secured loan portfolio totaled \$34.9 million and consisted of nine different companies with an average investment size of \$3.9 million, and a weighted average yield of 2.7% on debt investments. Our debt portfolio consisted of 61% fixed-rate (including 18% with a LIBOR floor) and 39% in variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$3.6 million as of December 31, 2009. Our overall portfolio consisted of forty-four companies with an average investment size of \$11.7 million and a weighted average yield on debt investments of 11.3%, and was invested 35% in subordinated debt, 29% in second lien secured debt, 31% in senior secured loans and 5% in preferred and common equity investments.

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

As of September 30, 2008, our portfolio totaled \$372.1 million and consisted of \$166.2 million of subordinated debt, \$104.2 million of second lien secured debt, \$78.8 million of senior secured loans, and \$22.9

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million of equity investments. Our core assets totaled \$305.5 million and consisted of investments in nineteen different companies with an average investment size of \$16.1 million per company and a weighted average yield of 12.5% on debt investments. Our non-core senior secured loan portfolio totaled \$66.6 million and consisted of nineteen different companies (including one company also in our core portfolio) with an average investment size of \$3.5 million, and a weighted average yield of 5.2%. Our debt portfolio consisted of 45% fixed-rate and 55% variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$72.0 million. Our overall portfolio consisted of thirty-seven companies with an average investment size of \$10.1 million and a weighted average yield on debt investments of 11.1%, and was invested 45% in subordinated debt, 28% in second lien secured debt, 21% in senior secured loans, and 6% in preferred and common equity investments.

For the three months ended December 31, 2009, we invested \$50.5 million in six new and two existing portfolio companies with a weighted average yield on debt investments of 12.8%. Sales and repayments of long-term investments for the three months ended December 31, 2009 totaled \$16.8 million.

For the three months ended December 31, 2008, we invested approximately \$0.8 million in two existing portfolio companies. Sales and repayments of long term investments for the three months ended December 31, 2008 totaled \$2.3 million.

Results of Operations

Set forth below are the results of operations for the three months ended December 31, 2009 and 2008.

Investment Income

Investment income for the three month period ended December 31, 2009, was \$13.6 million, and was primarily attributable to \$5.4 million from subordinated debt investments, \$3.2 million from second lien secured debt investments and \$3.5 million from senior secured loan investments. The remaining investment income was primarily attributed to net accretion of discount and amortization of premium and other income. The increase in investment income compared with the same period in the prior year is due to the growth of our portfolio and the transition of the portfolio from temporary to long-term core investments.

Investment income for the three month period ended December 31, 2008, was \$12.1 million, and was primarily attributable to \$2.5 million from subordinated debt investments, \$3.9 million from second lien secured debt investments and \$5.0 million from senior secured loan investments. The remaining investment income was primarily attributed to interest income from short-term investments and to net accretion of discount and amortization of premium.

Expenses

Expenses for the three month period ended December 31, 2009, totaled \$6.4 million. Base management fee for the same period totaled \$2.5 million, performance-based incentive fee totaled \$1.8 million, credit facility related expense totaled \$0.8 million, general and administrative expenses totaled \$1.1 million and an excise tax of \$0.1 million.

Expenses for the three month period ended December 31, 2008, totaled \$ 6.3 million. Base management fee for the same period totaled \$ 1.8 million, performance-based incentive fee totaled \$ 1.4 million, credit facility related expense totaled \$ 1.8 million and general and administrative expenses totaled \$ 1.2 million.

Net Investment Income

Net investment income totaled \$7.2 million, or \$0.28 per share, for the three month period ended December 31, 2009, and \$5.8 million, or \$0.27 per share, for the three month period ended December 31, 2008.

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Net Realized Loss

Sales and repayments of long-term investments for the three month period ended December 31, 2009 totaled \$16.8 million and realized losses totaled \$16.6 million due to sales of senior secured loans and restructurings on investments offset by repayments on other investments. Sales and repayments of long-term investments totaled \$2.3 million, and net realized losses totaled \$0.9 million for the three month period ended December 31, 2008.

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

For the three month periods ended December 31, 2009 and 2008, our investments had a net change in unrealized appreciation (depreciation) of \$23.9 million and \$(42.4) million, respectively. On December 31, 2009 and September 30, 2009, net unrealized depreciation on investments totaled \$3.6 million and \$27.5 million, respectively.

For the three month periods ended December 31, 2009 and 2008, our long-term credit facility had a net change in unrealized (appreciation) depreciation of \$(5.8) million and \$5.7 million, respectively. On December 31, 2009 and September 30, 2009, net unrealized appreciation on our long-term credit facility totaled \$43.8 million and \$49.6 million, respectively, which included the cumulative effect of adoption of ASC 825-10 on our credit facility of \$41.8 million.

Net Increase (Decrease) in Net Assets from Operations

Net increase in net assets resulting from operations totaled \$8.7 million, or \$0.34 per share, for the three month period ended December 31, 2009, primarily due to the overall increase in fair values for investments held in our portfolio offset to some extent by the increase in fair value of our credit facility and realized losses. Net decrease in net assets resulting from operations totaled \$(31.8) million, or \$(1.51) per share, for the three month period ended December 31, 2008.

Results of operations

Set forth below are our results of operations for the fiscal years ended September 30, 2009 and 2008, and for the period from January 11, 2007 (inception) to September 30, 2007.

Investment Income

Investment income for the fiscal year ended September 30, 2009, was \$45.1 million, and was primarily attributable to \$24.1 million from subordinated debt investments, \$12.2 million from second lien secured debt investments, and \$6.0 million from senior secured loan investments for the same period. The remaining investment income was primarily attributed to interest income from net accretion of discount and amortization of premium. The increase in investment income from fiscal year 2008 to 2009 was due to the growth in our overall portfolio.

Investment income for the fiscal year ended September 30, 2008, was \$39.8 million, and was primarily attributable to \$7.2 million from subordinated debt investments, \$14.7 million from second lien secured debt investments, and \$16.2 from senior secured loan investments for the same period. The remaining investment income was primarily attributed to interest income from short-term investments and to net accretion of discount and amortization of premium. The increase in investment income from fiscal year 2007 to 2008 was due to the growth of our portfolio and the transition of the portfolio from temporary to long-term investments.

Investment income for the period from January 11, 2007 (inception) through September 30, 2007 was \$13.1 million and was primarily attributed to senior secured loan investments.

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Expenses for the fiscal year ended September 30, 2009, totaled \$22.4 million. Base management fee for the same period totaled \$7.7 million, performance-based incentive fee totaled \$5.7 million, credit facility related expense totaled \$4.6 million and general and administrative expenses totaled \$4.4 million. The increases in expenses from fiscal year 2008 to 2009 were primarily due to the growth of our portfolio and offset by the reduced borrowing costs under our credit facility.

Net expenses for the fiscal year ended September 30, 2008, totaled \$21.2 million. Net base management fee for the same period totaled \$6.7 million, performance-based incentive fee totaled \$3.8 million, credit facility related expense totaled \$6.3 million and general and administrative expenses totaled \$4.4 million. The increases in expenses from fiscal year 2007 to 2008 were due to the growth of our portfolio and the incurrence of additional borrowing costs under our credit facility.

Net expenses for the period from January 11, 2007 (inception) through September 30, 2007 were \$5.8 million. Of these totals, \$1.8 million was attributable to credit facility related expenses, and \$2.1 million to general and administrative expenses (including approximately \$0.3 million non-recurring, primarily legal and corporate tax expenses). Net base management fee for both periods totaled \$1.9 million. PennantPark Investment Advisers did not receive a management or incentive fee for its service performed on our behalf prior to completion of our initial public offering on April 24, 2007.

Net Investment Income

Net investment income totaled \$22.7 million or \$1.08 per share and \$18.6 million or \$0.88 per share, respectively, for the fiscal years ended September 30, 2009 and 2008, and \$7.3 million or \$0.35 per share for the period from January 11, 2007 (inception) through September 30, 2007.

Net Realized Loss

Sales and repayments of long-term investments for the fiscal years ended September 30, 2009 and 2008, totaled \$28.0 million and \$70.1 million, respectively, and net realized losses totaled \$39.2 and \$11.2 million, respectively. Sales and repayments of long-term investments for the period from January 11, 2007 (inception) through September 30, 2007 totaled \$99.6 million and net realized losses totaled approximately \$0.1 million.

Net Unrealized Appreciation (Depreciation) on Investments, Cash Equivalents and Credit Facility

Net unrealized appreciation (depreciation) on investments and cash equivalents totaled \$44.5 million, \$(48.1) million and \$(23.9) million for the fiscal years ended September 30, 2009, 2008 and for the period from January 11, 2007 (inception) through September 30, 2007, respectively. Net unrealized appreciation on credit facility totaled \$7.8 million for the fiscal year ended September 30, 2009.

Net Increase/Decrease in Net Assets from Operations

Net increase in net assets resulting from operations totaled \$35.8 million, or \$1.70 per share, for the fiscal year ended September 30, 2009, primarily due the overall increases in market values for investments held in our portfolio and the decrease in the fair value of our credit facility, offset by realized losses. Net decrease in net assets resulting from operations totaled \$40.7 million, or \$1.93 per share, for the fiscal year ended September 30, 2008, primarily due to the overall decline in market values for investments held in our portfolio. Net decrease in net assets resulting from operations totaled \$16.7 million or \$0.80 per share for the period from January 11, 2007 (inception) through September 30, 2007.

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Liquidity and Capital Resources

On June 25, 2007, PennantPark Investment entered into a senior secured revolving credit agreement, or our credit facility, among us, various lenders and SunTrust Bank, as administrative agent for the lenders. SunTrust Robinson Humphrey Capital Markets acted as the joint lead arranger and JPMorgan Chase (Chase Lincoln First Commercial successor interest of Bear Stearns Corporate Lending Inc.) acted as joint lead arranger and syndication agent. As of December 31, 2009, we had outstanding borrowings of \$245.7 million with a fair value of \$201.9 million and a weighted average interest rate at that time of 1.23% exclusive of the fee on undrawn commitment of 0.20%.

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

The credit facility contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintenance of a minimum shareholders' equity of the greater of (i) 40% of the total assets of PennantPark Investment and its subsidiaries as at the last day of any fiscal quarter and (ii) the sum of (A) \$120,000,000 plus (B) 25% of the net proceeds from the sale of equity interests in PennantPark Investment and its subsidiaries after the closing date of the credit facility, (c) maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness, in each case of PennantPark Investment, of not less than 2.0:1.0, (d) maintenance of minimum liquidity standards, (e) limitations on the incurrence of additional indebtedness, (f) limitations on liens, (g) limitations on fundamental corporate changes, (h) limitations on investments (other than PennantPark Investment's portfolio investments and certain other ordinary course investments), (i) limitations on payments and distributions (other than distributions to PennantPark Investment's shareholders as contemplated to maintain RIC status), (j) limitations on transactions with affiliates, (k) limitations on engaging in business not contemplated by PennantPark Investment's investment objectives, and (l) limitations on the creation or existence of agreements that prohibit liens on properties of PennantPark Investment and its subsidiaries. In addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under our credit facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in PennantPark Investment's portfolio.

PennantPark Investment has and may continue to raise additional equity or debt capital through a registered offering or a shelf registration or may securitize a portion of its investments among other considerations. In addition, debt capital, to the extent it is available under stressed credit market conditions, may be issued at a higher cost and on less favorable terms and conditions. Furthermore, our credit facility's availability depends on various covenants and restrictions as discussed in the preceding paragraph. The primary uses of existing funds and any funds raised in the future is expected to be for the repayment of indebtedness, investments in portfolio companies, cash distributions to our shareholders or for other general corporate purposes.

PennantPark Investment's liquidity and capital resources are also generated and available from cash flows from operations, including investment sales and repayments, and income earned. On February 2, 2010, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of 12 months. On September 29, 2009, we sold shares of our common stock below the then current net asset value per share of common stock also with stockholder approval we previously received August 29, 2009. Any decisions to sell shares below the then current net assets value per share of our common stock in one or more offerings is subject to the determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below net asset value per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our net asset value per share.

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Our operating activities used cash of \$45.1 million for the three months ended December 31, 2009, and our financing activities provided net cash proceeds of \$18.9 million for the same period, primarily from proceeds on issuance of common stock and net borrowings on our credit facility.

Our operating activities generated cash of 10.0 million for the three months ended December 31, 2008, and our financing activities used cash of \$49.7 million for the same period, primarily from net repayments under our credit facility.

Our operating activities used cash of \$42.4 million for the fiscal year ended September 30, 2009, and our financing activities provided net cash proceeds of \$35.4 million for the same period, primarily from both proceeds on a follow-on public offering and net borrowings on our credit facility.

Our operating activities used cash of \$390.7 million for the fiscal year ended September 30, 2008, and our financing activities provided cash proceeds of \$173.0 million for the same period, primarily from net borrowings under our credit facility.

Our operating activities used cash of \$37.9 million for the period from January 11, 2007 (inception) through September 30, 2007 and our financing activities provided cash proceeds of \$295.8 million for the same period, primarily from the issuance of our common stock.

Contractual Obligations

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

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior secured revolving credit facility ⁽¹⁾	\$ 245.7		\$ 245.7		

- (1) On December 31, 2009, \$54.3 million remained unused under our senior secured revolving credit facility, subject to maintenance of at least 200% of our total assets less liabilities other than indebtedness to our total outstanding indebtedness, maintenance of a blended percentage of the values of our portfolio companies, and restrictions on certain payments and issuance of debt.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was renewed in February 2010, PennantPark Investment Advisers serves as our investment adviser in accordance with our Investment Management Agreement. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance. See Certain Relationships and Transactions Investment Management Agreement and Note 3 to our financial statements for more information.

Under our Administration Agreement, which was renewed in February 2010, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide managerial assistance to our portfolio companies, PennantPark Investment Administration will be paid an additional amount based on the services provided, which amount will not in any case exceed the amount we receive from the portfolio companies for such services. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief compliance officer, chief financial officer and their respective staff. See Certain Relationships and Transactions Administration Agreement and Note 3 to our financial statements for more information.

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

Off-Balance Sheet Arrangements

We currently do not engage in any off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

Distributions

In order to qualify as a RIC and to not be subject to corporate-level tax on income, we are required, under Subchapter M of the Code, to distribute at least 90% of the sum of our ordinary income and realized net capital gains, if any, to our stockholders on an annual basis. Although not required for us to maintain our RIC tax status, we also must distribute at least 98% of our income (both ordinary income and net capital gains) in order to preclude the imposition of an entity level excise tax. For the three months ended December 31, 2009, we have elected to retain a portion of our calendar year income and record an excise tax of \$0.1 million.

During the three months ended December 31, 2009 and 2008, we declared distributions of \$0.25 and \$0.24 per share, respectively, for total distributions of \$6.5 million and \$5.1 million, respectively. During the fiscal years ended September 30, 2009 and 2008, and for the period from January 11, 2007 (inception) through September 30, 2007, we paid to stockholders distributions of \$0.96, \$0.90 and \$0.36 per share, respectively, for a total distribution of \$20.2 million, \$19.0 million and \$7.6 million, respectively. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year.

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We intend to continue to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors. Our dividends declared since our inception have been as follows:

	Dividend Declared
Fiscal year ending September 30, 2010	
Second quarter	\$ 0.26 ⁽¹⁾
First quarter	\$ 0.25
Fiscal year ended September 30, 2009	
Fourth quarter	\$ 0.24
Third quarter	\$ 0.24
Second quarter	\$ 0.24
First quarter	\$ 0.24
Total	\$ 0.96
Fiscal year ended September 30, 2008	
Fourth quarter	\$ 0.24
Third quarter	\$ 0.22
Second quarter	\$ 0.22
First quarter	\$ 0.22
Total	\$ 0.90
Fiscal year ended September 30, 2007	
Fourth quarter	\$ 0.22
Third quarter	\$ 0.14
Total	\$ 0.36*

* \$0.00107 per share is a tax return of capital

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

We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

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

In January 2010, the Internal Revenue Service issued a revenue procedure that temporarily allows a RIC to distribute its own stock as a dividend for the purpose of fulfilling its distribution requirements. Pursuant to this revenue procedure, a RIC may treat a distribution of its own stock as a dividend if (1) the stock is publicly traded on an established securities market, (2) the distribution is declared with respect to a taxable year ending on or before December 31, 2011 and (3) each shareholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all shareholders, which must be at least 10% of the aggregate declared distribution. If too many shareholders elect to receive cash, each shareholder electing to receive cash will receive a pro rata amount of cash (with the balance of the distribution paid in stock). In no event will any shareholder electing to receive cash receive less than 10% of his or her entire distribution in cash.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we

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

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.

Quantitative and qualitative disclosure about market risk

We are subject to financial market risks, including changes in interest rates. During the period covered by this report, many of the loans in our portfolio had floating interest rates. These loans are usually based on a floating LIBOR rate and typically have durations of three months after which they reset to current market interest rates.

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

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

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in benefits of lower interest rates with respect to our portfolio of investments with fixed interest rates.

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Information about our senior securities is shown in the following table as of December 31, 2009 and September 30, 2009, 2008 and 2007. The information for September 30, 2009, 2008 and 2007 presented below has been derived from our financial statements which have been audited by KPMG LLP.

Class and Year	Total Amount Outstanding⁽¹⁾	Asset Coverage per Unit⁽²⁾ (unaudited)	Involuntary Liquidating Preference Per Unit⁽³⁾	Average Market Value Per Unit⁽⁴⁾
Credit Facility				
Fiscal 2010 (as of December 31, 2009, unaudited)	\$ 245,700	\$ 2,068	N/A	N/A
Fiscal 2009 (as of September 30, 2009)	\$ 225,100	\$ 2,115	N/A	N/A
Fiscal 2008 (as of September 30, 2008)	\$ 202,000	\$ 2,043	N/A	N/A
Fiscal 2007 (as of September 30, 2007)	\$ 10,000	\$ 28,039	N/A	N/A

- (1) Total cost of each class of senior securities outstanding at the end of the period presented (in 000 s).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by cost of senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, as senior securities are not registered for public trading.

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Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market. On February 17, 2010, the last reported closing price of our common stock was \$10.10 per share.

Period	NAV ⁽¹⁾	Closing Sales Price		High Sales	Low Sales	Declared Dividend
		High	Low	Price to NAV ⁽²⁾	Price to NAV ⁽²⁾	
Fiscal year ending September 30, 2010						
Second quarter (through February 17, 2010)	\$ N/A	\$ 10.10	\$ 8.88	N/A%	N/A%	\$ 0.26 ⁽³⁾
First quarter	11.86	9.15	7.42	77	63	0.25
Fiscal year ended September 30, 2009						
Fourth quarter	11.85	9.06	6.28	76	53	0.24
Third quarter	11.72	7.65	3.85	65	33	0.24
Second quarter	12.00	4.05	2.64	34	22	0.24
First quarter	10.24	7.81	2.35	76	23	0.24
Fiscal year ended September 30, 2008						
Fourth quarter	10.00	8.50	5.92	85	59	0.24
Third quarter	10.77	8.60	7.05	80	65	0.22
Second quarter	10.26	11.31	8.38	110	82	0.22
First quarter	12.07	14.49	9.08	120	75	0.22
Fiscal year ended September 30, 2007						
Fourth quarter	12.83	14.76	12.61	115	98	0.22
Third quarter*	13.74	15.03	14.04	109	102	0.14

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

(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.

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SALES OF COMMON STOCK BELOW NET ASSET VALUE

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

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

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

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

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

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

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

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

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

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

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

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

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:

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

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

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

Impact on Existing Stockholders who do not Participate in the Offering

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

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

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

The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15,000,000 in total assets and \$5,000,000 in total liabilities. The current NAV and NAV per share are thus \$10,000,000 and \$10.00, respectively. The table below illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after offering expenses and commission (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after offering expenses and commissions (a 10% discount from NAV); and (3) an offering of 200,000 shares (20% of the outstanding shares) at \$8.00 per share after offering expenses and commissions (a 20% discount from NAV). We estimate the offering expenses to be 0.5% of the discount from NAV.

	Example 1		Example 2		Example 3	
	5% Offering		10% Offering		20% Offering	
	at 5% Discount		at 10% Discount		at 20% Discount	
	Prior to Sale					
	Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale
						% Change
Offering Price						
Price per share to public		\$ 10.05		\$ 9.52		\$ 8.47
Net offering proceeds per share to issuer		\$ 9.50		\$ 9.00		