

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM N-2**

Registration Statement under the Securities Act Of 1933

Pre-Effective Amendment No.

Post-Effective Amendment No.

**PennantPark Investment Corporation**

(Exact name of Registrant as specified in its charter)

590 Madison Avenue  
15th Floor  
New York, NY 10022  
(Address of Principal Executive Offices)  
(212) 905-1000

(Registrant's Telephone Number, Including Area Code)

Arthur H. Penn  
c/o PennantPark Investment Corporation  
590 Madison Avenue  
15th Floor  
New York, NY 10022  
(Name and Address of Agent for Service)

*Copies to:*

Thomas Friedmann, Esq.  
David Harris, Esq.  
Dechert, LLP  
1775 I Street, N.W.  
Washington, DC 20006-2401

**APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:**  
**As soon as practicable after the effective date of this Registration Statement.**

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

when declared effective pursuant to section 8(c).

If appropriate, check the following box:

This amendment designates a new effective date for a previously filed registration statement.

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price <sup>(1)</sup>	Amount of Registration Fee <sup>(1)</sup>
Common Stock, \$0.001 par value <sup>(2)</sup>		\$	\$	\$
Preferred Stock, \$0.001 par value <sup>(2)</sup>				
Warrants <sup>(3)</sup>				
Subscription Rights <sup>(4)</sup>				
Debt Securities <sup>(5)</sup>				
Total			250,000,000 <sup>(6)</sup>	9,825

(1) Estimated pursuant to Rule 457 solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.

(2) Subject to Note 6 below, there is being registered hereunder an indeterminate number of shares of common stock or preferred stock as may be sold, from time to time.

(3) Subject to Note 6 below, there is being registered hereunder an indeterminate number of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.

(4) Subject to Note 6 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.

(5) Subject to Note 6 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$250,000,000.

(6) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$250,000,000.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

Subject to Completion

PRELIMINARY PROSPECTUS

April 1, 2008

\$250,000,000



Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

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

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. From time to time, we may also invest in public companies whose securities are not thinly traded. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt and, to a lesser extent, equity investments.

We fund a portion of our investments with borrowed money, a practice commonly known as leverage. We can offer no assurances that we will achieve our investment objectives.

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

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$250,000,000 of our common stock, preferred stock, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities or subscription rights, which we refer to, collectively, as the "securities." The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders, or (3) under such circumstances as the Securities and Exchange Commission, or the SEC, may permit.

Our common stock has been approved for quotation on NASDAQ under the symbol "PNNT". The last reported closing price for our common stock on March 24, 2008 was \$8.70 per share.

This prospectus and any accompanying prospectus supplement contains important information you should know before investing in our securities. Please read them before you invest and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 590 Madison Avenue, New York, NY 10022 or by telephone at (212) 905-1000 or on our website at [www.pennantpark.com](http://www.pennantpark.com). The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information free of charge.

**Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in the Company in "[Risk Factors](#)" beginning on page 11 of this prospectus.**

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

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

Prospectus dated \_\_\_\_\_, 2008

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

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the “shelf” registration process. Under the shelf registration process, we may offer from time to time up to \$250,000,000 of our common stock, preferred stock, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities and subscription rights to purchase common stock on the terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the headings “Additional Information” and “Risk Factors” before you make an investment decision.

## PROSPECTUS SUMMARY

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

### **PennantPark Investment Corporation**

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

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. From time to time, we may also invest in public companies whose securities are not thinly traded. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt and, to a lesser extent, equity investments.

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

While our primary focus is to generate current income and capital appreciation through debt and equity investments in thinly traded or private U.S. companies, we may invest up to 30% of the portfolio in opportunistic investments. These investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies that are not thinly traded and securities of companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

The following table provides highlights from the selected financial data disclosed on page 9 as of and for the periods ended December 31, 2007 and September 30, 2007:

(In thousands, except yield and per share data)	<u>Three months ended</u> <u>December 31, 2007</u> (unaudited)	<u>Period from January 11,</u> <u>2007 (inception) to</u> <u>September 30, 2007</u>
<b>Statement of operations data</b>		
Net investment income	\$ 4,732	\$ 7,305
Net realized and unrealized loss	(16,269)	(24,004)
Net decrease in net assets resulting from operations	(11,537)	(16,699)
<b>Per share data</b>		
Distributions declared per share	0.22	0.36
Net asset value per share <sup>(1)</sup>	12.07	12.83
<b>Balance sheet data (at period end)</b>		
Total net asset value	254,221	270,393
Total assets	429,679	555,008
Total investment portfolio <sup>(2)</sup>	423,971	548,976
Borrowings outstanding	91,500	10,000
<b>Yield on debt portfolio (at period end)</b>	10.4%	10.1% <sup>(3)</sup>

(1) Stock began trading on April 19, 2007. The market price per share as of December 31, 2007 and September 30, 2007, respectively, was \$10.02 and \$13.40.

(2) Includes cash equivalents.

(3) Unaudited.

#### About PennantPark Investment Advisers

Our investment activities are managed by the Investment Adviser under an investment management agreement (the "Investment Management Agreement"). The Investment Adviser is responsible for sourcing potential investments, conducting research on prospective investments, analyzing investment opportunities, structuring our investments and monitoring our investments and portfolio companies on an ongoing basis. The Investment Adviser is led by Arthur H. Penn, its founder and the founder of PennantPark. Mr. Penn has over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. He has been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in each of these businesses. Mr. Penn is a Co-founder and former Managing Partner of Apollo Investment Management, L.P., or Apollo Investment Management, which is the Investment Adviser of Apollo Investment Corporation, or Apollo Investment, a publicly traded business development company. Mr. Penn served as the Chief Operating Officer and a member of the investment committee of Apollo Investment from its inception in April 2004 through February 2006 and was President and Chief Operating Officer from February 2006 through November 2006.

During the period in which Mr. Penn was the Chief Operating Officer, Apollo Investment raised approximately \$930 million of gross proceeds in an initial public offering in April 2004 and raised an additional \$308 million in a follow-on offering of public equity in March 2006. Mr. Penn supervised the negotiation and execution of a senior secured credit facility with a syndicate of banks which, as amended, provides for borrowings up to \$2.0 billion. During Mr. Penn's tenure with Apollo Investment, it invested approximately \$2.8 billion in 73 companies in partnership with 54 different financial sponsors.

During his more than 20-year career in the financial services industry, Mr. Penn has developed a network of financial sponsor relationships as well as relationships with management teams, investment bankers, attorneys and accountants that we believe will provide us with access to substantial investment opportunities.

Our Investment Adviser has three experienced investment professionals, in addition to Mr. Penn, who are partners of the firm. These investment professionals, Geoffrey Chang, Salvatore Giannetti III and Whit Williams, have a combined 44 years of experience in the mezzanine, private equity and leveraged finance businesses. See “Management,” “Certain Relationships and Transactions—Investment Management Agreement” and “Risk Factors—Risks Relating to our Business and Structure.”

### **Administration**

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

Our Administrator has experienced professionals including, Aviv Efrat, who serves as our Chief Financial Officer and Treasurer. Mr. Efrat, who is also a Managing Director of PennantPark Investment Administration, has extensive experience in finance and administration of registered investment companies, having served for a decade as a Director at BlackRock, Inc., a leading investment firm.

### **Competitive Advantage**

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

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

We employ a disciplined approach in selecting investments that meet our value-oriented investment criteria employed by the Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We do not intend to pursue short-term origination targets. We believe our approach will enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

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

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

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

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

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

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

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

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

### ***Competition***

Our primary competitors provide financing to middle-market companies and include other business development companies, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased prior to downturn in the credit market which began in mid-2007 among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies had intensified. However, we believe that there has been a reduction in the amount of debt capital available for lending in leveraged buyout transactions since the downturn in the credit markets, which began in mid-2007. We believe this has resulted in a less competitive environment for making new investments.

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

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

### ***Leverage***

We maintain a five-year, multi-currency \$300 million senior secured credit facility with a group of lenders, under which we had \$10 million and \$91.5 million of indebtedness outstanding at September 30, 2007 and December 31, 2007, respectively. Pricing on borrowings under our credit facility is set at 100 basis points over LIBOR. We expect that our substantial debt capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. See note 11 to our financial statements.



## **Operating and Regulatory Structure**

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

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

### **Use of Proceeds**

We intend to use the net proceeds from selling securities pursuant to this prospectus to reduce our outstanding obligations under our Credit Facility, invest in new or existing portfolio companies, or for other general corporate purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

We anticipate that substantially all of the net proceeds of an offering will be invested in new or existing portfolio companies within two years of issuance, depending on the availability of appropriate investment opportunities consistent with our investment objectives and market conditions. The management fee payable by us will not be reduced while our assets are invested in such securities. See “Regulation—Temporary Investments” for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

### **Dividends on Common Stock**

We intend to continue to distribute quarterly dividends to our common stockholders. The amount and general timing of our quarterly dividends, if any, will be determined by our board of directors. For more information, see “Distributions.”

### **Dividends on Preferred Stock**

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

### **Dividend Reinvestment Plan**

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

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**Plan of Distribution**

We may offer, from time to time, up to \$250,000,000 of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc., or FINRA, the maximum compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of the offering of such securities. For more information, see "Distributions."

**Our Corporate Information**

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

## FEES AND EXPENSES

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

<b>Stockholder transaction expenses</b>	
Sales load (as a percentage of offering price) %	(1)
Offering expenses (as a percentage of offering price)	%(2)
<b>Total common stockholder expenses (as a percentage of offering price) %</b>	<b>%(3)</b>
<b>Estimated annual expenses (as a percentage of net assets attributable to common shares)(4)</b>	
Management fees	2.76%(5)
Incentive fees payable under the Investment Management Agreement	0.70%(6)
Interest and other credit facility related expenses on borrowed funds	1.73%(7)
Other expenses	2.03%(8)
<b>Total annual expenses</b>	<b>7.22%(9)</b>

- (1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.
- (3) The expenses of our dividend reinvestment plan are included in “other expenses” because they are not material expenses.
- (4) “Net assets attributable to common shares” equals our net assets at December 31, 2007.
- (5) 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.”
- (6) Incentive fees are based on actual amounts incurred during the three months ended December 31, 2007 and annualized for a full year. However, the incentive fees which are based on our performance, will vary from year to year and will not be paid unless our performance exceeds certain thresholds. As we cannot predict whether we will meet these thresholds, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended December 31, 2007. 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 elsewhere in this prospectus.
- (7) “Interest and other credit facility related expenses on borrowed funds” represents interest and credit facility fees incurred and amortization of debt issuance costs during the three months ended December 31, 2007 annualized for a full year. As of December 31, 2007, we had \$208.5 million unused and \$91.5 million in borrowings outstanding under our \$300.0 million credit facility. For more information, see “Risk Factors—We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.”
- (8) “Other expenses” includes our general and administrative expenses, professional fees, directors’ fees, insurance costs 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, 2007 annualized for a full year. See our “Consolidated Statement of Operations” in our financial statements.

- (9) “Total annual expenses” as a percentage of net assets attributable to common shares are higher than the total annual expenses percentage would be for a company that is not leveraged. We borrow money to leverage our net assets and increase our total assets. The SEC requires that the “total annual expenses” percentage be calculated as a percentage of net assets (defined as total assets less indebtedness), rather than the total assets, including assets that have been funded with borrowed monies. If the “total annual expenses” percentage were calculated instead as a percentage of total assets, our “total annual expenses” would be 5.24% of total assets. For a presentation and calculation of total annual expenses based on total assets, see page 33 of this prospectus.

### Example

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a \$1,000 hypothetical investment in common shares, assuming (1) a 4.25% sales load (underwriting discounts and commissions) and offering expenses totaling 0.20%, (2) total net annual expenses of 6.52% of net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Total expenses incurred	\$ 106	\$ 227	\$ 344	\$ 622

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

## SELECTED FINANCIAL DATA

Quarterly financial information is derived from unaudited financial data and, in the opinion of management, reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the three months ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008. The Statement of Operations, Per Share Data and Balance Sheet Data for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our financial statements which have been audited by KPMG LLP, our independent registered public accounting firm. This selected financial data 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” included elsewhere in this prospectus.

(Dollar amounts in thousands, except per share data)	Three months ended December 31, 2007 (Unaudited)	Period from January 11, 2007 (inception) to September 30, 2007*
<b>Statement of operations data:</b>		
Total investment income	\$ 9,004	\$ 13,107
Net expenses before base management fee waiver	4,477	6,444
Net expenses after base management fee waiver <sup>(1)</sup>	4,272	5,802
Net investment income	4,732	7,305
Net realized and unrealized loss	(16,269)	(24,004)
Net decrease in net assets resulting from operations	(11,537)	(16,699)
<b>Per share data:</b>		
Net asset value (at period end)	\$ 12.07	\$ 12.83
Net investment income	0.23	0.35
Net realized and unrealized loss	(0.77)	(1.15)
Net decrease in net assets resulting from operations	(0.54)	(0.80)
Distributions declared	0.22	0.36
<b>Balance sheet data (at period end):</b>		
Total assets	\$ 429,679	\$ 555,008
Total investment portfolio <sup>(3)</sup>	423,971	548,976
Borrowings outstanding	91,500	10,000
Payable for investments and cash equivalents purchased	79,407	269,344
Other liabilities	4,551	5,271
Total net asset value	254,221	270,393
<b>Other data:</b>		
Total return <sup>(2)</sup>	(23.58)%	(8.29)%
Number of portfolio companies (at period end)	38	38 <sup>(4)</sup>
Value of long-term investments (at period end)	\$ 342,191	\$ 291,017
Yield on debt portfolio (at period end)	10.4%	10.1% <sup>(4)</sup>

\* Inception of operations.

- (1) The base management fee waiver is in effect through March 31, 2008. See “Certain Relationships and Transactions—Investment Advisory Fees.”
- (2) Total return is based on the change in market price per share and takes into account dividends and distributions, if any, reinvested in accordance with our dividend reinvestment plan. Total return would have been (23.66)%<sup>(4)</sup> and (8.49)%<sup>(4)</sup>, respectively, for the three months ended December 31, 2007 and the period from January 11, 2007 (inception) to September 30, 2007 without the base management fee waiver. Total return is not annualized.
- (3) Includes cash equivalent.
- (4) Unaudited.

**Selected Quarterly Data (Unaudited)**

	December 31, 2007 <u>Q1</u>	September 30, 2007 <u>Q4</u>	June 30, 2007 <u>Q3</u>	March 31, 2007 <u>Q2*</u>
(Unaudited)				
(dollar amounts in thousands, except per share data)				
Total investment income	\$ 9,004	\$ 6,909	\$ 5,425	\$ 773
Net investment income (loss)	\$ 4,732	\$ 4,348	\$ 3,208	\$ (251)
Net realized and unrealized gain (loss)	\$ (16,269)	\$ (18,870)	\$(5,152)	\$ 18
Net decrease in net assets resulting from operations	\$ (11,537)	\$ (14,522)	\$(1,944)	\$ (234)
Earnings per common share	\$ (0.54)	\$ (0.70)	\$ (0.09)	\$ (0.01)
Net asset value per share at the end of the quarter	\$ 12.07	\$ 12.83	\$ 13.74	\$ 12.08
Market value per share at the end of the quarter	\$ 10.02	\$ 13.40	\$ 14.04	(1)

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

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

## RISK FACTORS

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

### **RISKS RELATING TO OUR BUSINESS AND STRUCTURE**

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

We were incorporated in January 2007. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objectives and that the value of our common stock could decline substantially. Although we have used, and will continue to use, the proceeds of our initial public offering and of our credit facility, we anticipate that it will take us up to two years from the date of our initial public offering to invest all of our assets in accordance with our investment objectives. Any distributions we make during such period may be substantially lower than the distributions that we expect to pay when our portfolio is fully invested.

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

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

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

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

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

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

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

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

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

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

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



investment objectives. Mr. Penn, our Chief Executive Officer and the Managing Member of our Investment Adviser, has had approximately four years of experience managing the investments of PennantPark and another business development company. However, current market conditions and the current stage of the economic cycle present significant challenges to us that have not been present in recent years, if ever. In addition, the investment philosophy and techniques used by our Investment Adviser may differ from those used by other investment companies. Accordingly, we can offer no assurance that PennantPark will replicate the historical performance of other investment companies with which Mr. Penn and our other investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

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

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

**We will be subject to corporate-level income tax if we are unable to qualify as a RIC.**

To qualify as a RIC under the Code, we must meet certain source-of-income, asset diversification and annual distribution requirements. The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. To the extent we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax. To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to qualify as a RIC for any reason and become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders.

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

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

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

In some cases we may recognize income before or without receiving cash representing such income. As a result, we may have difficulty meeting the tax requirement to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to obtain RIC tax

benefits. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax benefits and thus be subject to corporate level income tax.

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

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

- *Senior Securities.* As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities they would rank “senior” to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of our common stock. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.
- *Additional Common Stock.* Our Board of Directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our board of directors. We may, however, subject to the requirements of the 1940 Act, issue rights to acquire our common stock at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our Board of Directors, closely approximates the market value of such securities. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.
- *Securitization.* In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. We would retain all or a portion of the equity in the securitized pool of loans. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We would not treat the debt issued by such a subsidiary as senior securities. An inability to successfully securitize our loan portfolio could limit our ability to

grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses.

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

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

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

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

We have indebtedness outstanding pursuant to our \$300 million revolving credit facility and expect in the future to borrow additional amounts under our credit facility and to increase the size of our credit facility. Lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or preferred stockholders, if any, and we have granted a security interest in our assets in connection with our credit facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common or preferred stock. Leverage is generally considered a speculative investment technique. Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures.

As of December 31, 2007 we had outstanding borrowings of \$91.5 million under our credit facility with an annual interest rate at that time of 5.90%. Accordingly, to cover the annual interest on our borrowings outstanding at December 31, 2007 at the then current rate we would have to receive an annual return of at least 1.3%. This projection is for illustrative purposes only, and actual interest rates on our credit facility borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee payable to our Investment Adviser, will be borne by our common stockholders.

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

The following table is designed to illustrate the effect on return to a holder of our common stock of the leverage created by our use of borrowing at December 31, 2007 of 26% of our total assets (including such borrowed funds), at the weighted average annual interest rate of 5.90% and assuming hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses) <sup>(1)</sup>	-10.0%	-5.0%	0	5.0%	10.0%
Corresponding return to common stockholders <sup>(2)</sup>	-15.6%	-8.9%	-2.1%	4.7%	11.5%

- (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 may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or 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 must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not 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.

**Changes in interest rates 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, 2007, the applicable LIBOR rate has decreased from 5.32% to 4.60%. 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 “Quantitative and Qualitative Disclosures about Market Risk.”

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.”

**We will be exposed to risks associated with changes in interest rates.**

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 could increase our interest expense, thereby decreasing our net income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

**We will need to raise additional capital to grow because we must distribute most of our income.**

We may need additional capital to fund the growth of our investments. We have issued equity securities and have borrowed from financial institutions. A reduction in the availability of new capital could limit our ability to grow. We will be required to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to maintain our RIC status. As a result, these earnings will not be available to fund new investments. If we fail to obtain additional capital to fund our investments, this could limit our ability to grow, which may have an adverse effect on the value of our securities.

In addition, as a business development company, we are generally required to maintain a ratio of total assets to total borrowings of at least 200%. This may restrict our ability to borrow in certain circumstances.

**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. 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 partners of our Investment Adviser 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 that may be formed in the future. The Investment Adviser has 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.

The Investment Adviser may receive a quarterly incentive fee based, in part, on our Pre-Incentive Fee Net Investment Income, if any, for the immediately preceding calendar quarter. This incentive fee is subject to a quarterly hurdle rate before providing an incentive fee return to the Investment Adviser. To the extent we or the Investment Adviser are able to exert influence over our portfolio companies, the quarterly incentive fee may provide PennantPark Investment Advisers with an incentive to induce our portfolio companies to accelerate or defer interest or other obligations owed to us from one calendar quarter to another. For a discussion of our advisory fees, see “Certain Relationships and Transactions—Investment Management Agreement.”

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 will 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. As a result, there will be uncertainty as to the value of our portfolio investments. We expect that a large percentage of our portfolio investments will be in the form of securities that have no broker/dealers quotes. The fair value of such securities may not be readily determinable. We value these securities quarterly at fair value as determined in good faith by our board of directors.

At December 31, 2007, most of our portfolio assets were recorded using broker/dealers quotes. 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.

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 value each individual investment on a quarterly basis and record unrealized depreciation for an investment that we believe has become impaired, including where collection of a loan or realization of an equity investment is doubtful, or when the enterprise value of the portfolio company does not currently support the cost of our debt or equity investment. Enterprise value means the entire value of the company to a potential buyer, including the sum of the values of debt and equity investments used to capitalize the enterprise at a point in time. We will record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value. Without a readily available market value and because of the inherent uncertainty of valuation, the fair value of our investments determined in good faith by the board of directors may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. Our net asset value could be affected if our determination of the fair value of our investments is materially different than the value that we ultimately realize.

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.

**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 United States dollar, a sharp economic downturn or an operational problem that affects third parties or us, and could materially damage our business.

## **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.**

Even 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, which 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. 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 senior secured loans or mezzanine debt, we may acquire warrants to purchase equity investments from time to time. Our goal is ultimately to dispose of these equity investments and realize gains upon our disposition of such interests. However, the equity investments we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity investments, and any gains that we do realize on the disposition of any equity investments may not be sufficient to offset any other losses we experience.

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

- these 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;
- 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.

**If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a business development company or be precluded from investing according to our current business strategy.**

As a business development company, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. See "Regulation."

We believe that most of our senior secured loans and mezzanine debt investments will constitute as 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 could lose our status as a business development company, which would have a material adverse effect on our business, financial condition and results of operations. 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.

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

Many financial experts believe that we are about to enter into a recession or are already in a recession. Many of our portfolio companies may be 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 will 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.

**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.

The incentive fee payable by us to our Investment Adviser also may induce PennantPark Investment Advisers to invest on our behalf in instruments that have a deferred interest feature, even if such deferred payments would not provide cash necessary to enable us to pay current distributions to our stockholders. Under these investments, we would accrue interest over the life of the investment but would not receive the cash income from the investment until the end of the term. Our Pre-Incentive Fee Net Investment Income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds. To the extent we so invest, we will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay investment advisory fees, consisting of a base management fee and incentive fees, to PennantPark Investment Advisers with respect to investments in the securities and instruments of other investment companies under our Investment Management Agreement. With respect to any such investments, each of our stockholders will bear his or her share of the investment advisory fees of PennantPark Investment Advisers as well as indirectly bearing the investment advisory fees and other expenses of any investment companies in which we invest.

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

Our investment adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our 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. 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 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 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 RELATED TO ISSUANCE OF OUR PREFERRED STOCK**

An investment in our preferred stock should not constitute a complete investment program.

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

We cannot assure that the issuance of preferred stock would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock 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 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 were to exceed the net rate of return on our portfolio, the leverage would result in a lower rate of return to the holders of common stock than if we had not issued preferred stock. 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 greater net asset value decrease would also tend to cause a greater decline in the market price for our common stock. We might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing our ratings on the preferred stock or, in an extreme case, our current investment income might not be sufficient to meet the dividend requirements on the preferred stock. 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. 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, including higher advisory fees if our total return exceeds the dividend rate on the preferred stock. Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

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

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of our Board of Directors at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any 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 an RIC for federal income tax purposes.

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

### **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. Finally, 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.

**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.

**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 at \$10.02 and \$13.40 as of December 31, 2007 and September 30, 2007, respectively. Our NAV was \$12.07 and \$12.83, as of December 31, 2007 and September 30, 2007, 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, including Mr. Penn;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

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

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

## 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 investments that we expect to make;
- 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 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 (“SEC”), including annual reports on Form 10-K, reports on Form 10-Q and current reports on Form 8-K.



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## USE OF PROCEEDS

We intend to use the net proceeds from selling securities pursuant to this prospectus to reduce our outstanding obligations under our Credit Facility, invest in new or existing portfolio companies, or for other general corporate purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

We anticipate that substantially all of the net proceeds of an offering will be invested in new or existing portfolio companies within two years of issuance, depending on the availability of appropriate investment opportunities consistent with our investment objectives and market conditions. The management fee payable by us will not be reduced while our assets are invested in such securities. See “Regulation—Temporary Investments” for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

## DISTRIBUTIONS

We intend to make distributions on a quarterly basis to our stockholders. The amount and general timing of our quarterly distributions, if any, will be determined by our Board of Directors. We intend to distribute to our stockholders substantially all of our income. We may elect to make deemed distributions to our stockholders of certain net capital gains. If this happens, you will be treated as if you received an actual distribution of the capital gains we retain and reinvested the after-tax net proceeds in us. You also may be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See “Material U.S. Federal Income Tax Considerations.” With respect to the dividends paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to stockholders. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders.

The following table summarizes our dividends declared since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market:

	<b>Dividend Declared</b>
<b>Fiscal year ending September 30, 2008</b>	
Second quarter	\$ 0.22
First quarter	\$ 0.22
<b>Fiscal year ended September 30, 2007</b>	
Fourth quarter	\$ 0.22
Third quarter	\$ 0.14
<b>Total fiscal year ended September 30, 2007</b>	<b>\$ 0.36*</b>

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

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

We have elected to be taxed as a RIC under Subchapter M of the Internal Revenue Code of 1986. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31st and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we currently intend to distribute realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under “Material U.S. Federal Income Tax Considerations.”

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. See “Dividend Reinvestment Plan.”

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

## 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 or thinly traded public companies, 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. From time to time, we may also invest in public companies whose securities are not thinly traded. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt 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.

The level of our investment activity in our core assets 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 availability of credit to finance transactions, the general economic environment and the competitive environment for the types of investments we make. Although we have used, and will continue to use, the proceeds of our initial public offering and borrowings under our credit facility, we anticipate that it will take us up to two years from the date of our initial public offering to invest all of our assets in accordance with our investment objectives. Any distributions we make during such period may be substantially lower than the distributions that we expect to pay when our portfolio is fully invested.

While our primary focus is to generate current income and capital appreciation through debt and equity investments in thinly traded or private U.S. companies, we may invest up to 30% of the portfolio in opportunistic

investments. These investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies that are not thinly traded and securities of companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

## 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 payment-in-kind (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 recorded on the ex-dividend date.

## 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;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors and officers/errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act 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.

Although the base management fee is 2.00% of average adjusted gross total assets, the Investment Adviser has agreed to waive a portion of the base management fee such that the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007 and 1.75% from October 1, 2007 through March 31, 2008. The base management fee will equal 2.00% after March 31, 2008. For the period from the commencement of operations to the consummation of the initial public offering there were no Management Fees.

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.

The SEC requires that “Total Annual Expenses” be calculated as a percentage of net assets in the chart on page 7 rather than as a percentage of total assets. Total assets includes 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:

<u>Estimated Annual Expenses (as a Percentage of Total Assets)</u>	
Base management fees	2.00% <sup>(1)</sup>
Incentive fees payable under the Investment Management Agreement	0.51% <sup>(2)</sup>
Interest and other Credit Facility related expenses on borrowed funds	1.25% <sup>(3)</sup>
Other expenses	1.48% <sup>(4)</sup>
<b>Total Annual Expenses</b>	<b>5.24%</b>

- (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) Incentive fees are based on actual amounts incurred during the three months ended December 31, 2007 annualized for a full year. However, the incentive fees, which are based on our performance, will vary from year to year and will not be paid unless our performance exceeds certain thresholds. As we cannot predict whether we will meet these thresholds, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended December 31, 2007. 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 elsewhere in this prospectus.
- (3) “Interest and Other Credit Facility Related Expenses on Borrowed Funds” represents interest and credit facility fees incurred and amortization of debt issuance costs during the three months ended December 31, 2007 annualized for a full year. As of December 31, 2007, we had \$208.5 million available and \$91.5 million in borrowings outstanding under our \$300.0 million credit facility. For more information, see “Risk Factors—We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage” in this prospectus.
- (4) “Other Expenses” includes, among other expenses, our general and administrative expenses, professional fees, directors’ fees, insurance costs, 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, 2007 annualized for a full year. See our “Consolidated Statement of Operations” in our financial statements.

## Critical Accounting Policies

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

### *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 an independent pricing service or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. 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 purchased within 60 days of maturity will be valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent third party valuation firms, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs in connection with one of our portfolio companies, our board uses the pricing indicated by the external event to corroborate and/or assist us in our valuation of our investments in such portfolio company. Because there are not always readily available markets for many 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 are readily available but believed not to reflect the fair value of an investment, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- Our board of directors also engages one or more independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but believed not to reflect the fair value of an investment. The independent valuation firm reviews management’s preliminary valuations and its own independent assessment;

- The audit committee of our board of directors reviews the preliminary valuations of our 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
- 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.

### ***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 generally will 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 have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. We record prepayment premiums on loans and debt securities as interest income. Dividend income, if any, is recognized on the ex-dividend date.

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

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

### ***Payment in Kind Interest***

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

### ***Federal Income Taxes***

We operate so as to qualify 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.

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, 2007, our portfolio consisted of \$73.3 million of subordinated debt, \$113.5 million of second lien secured debt, \$6.6 million of equity investments and \$148.8 million of senior secured loans. Our core assets totaled \$193.4 million and consisted of investments in twelve different companies with an average

investment size of \$16.1 million per company and a weighted average yield of 12.8% on the debt investments. On December 31, 2007, our senior secured loan portfolio totaled \$148.8 million and consisted of twenty-eight different companies (including two companies also in our core portfolio) with an average investment size of \$5.3 million, and a weighted average yield of 7.2%. The overall portfolio had a weighted average yield on debt investments of 10.4%. For the three months ended December 31, 2007, we invested \$71.0 million across three new and two existing portfolio companies with an average yield of 12.9% on the debt investments. Sales and repayments of long term investments for the three months ended December 31, 2007 totaled \$4.4 million. On December 31, 2007, our portfolio consisted of thirty-eight companies and was invested 21% in subordinated debt, 33% in second lien secured debt, 2% in equity investments and 44% in senior secured loans.

As of September 30, 2007, our portfolio consisted of \$57.3 million of subordinated debt, \$67.8 million of second lien secured debt, \$7.0 million of equity investments and \$158.9 million of senior secured loans. Our core assets totaled \$132.1 million and consisted of investments in eight different companies with an average investment size of \$16.5 million per company and a weighted average yield of 13.0% on the debt investments. On September 30, 2007, our senior secured loan portfolio totaled \$158.9 million and consisted of thirty-one different companies (including one company also in our core portfolio) with an average investment size of \$5.3 million, and a weighted average yield of 7.5%. The overall portfolio had a weighted average yield on debt investments of 10.1%. On September 30, 2007, our portfolio consisted of thirty-eight companies and was invested 20% in subordinated debt, 23% in second lien secured debt, 2% in equity investments and 55% in senior secured loans.

## **Results of operations**

Set forth below are our results of operations for the three months ended December 31, 2007 and the period from January 11, 2007 (inception) through September 30, 2007.

### ***Investment Income***

Investment income totaled \$9.0 million and \$13.1 million for the three months ended December 31, 2007 and the period from January 11, 2007 (inception) through September 30, 2007, respectively.

Investment income of \$9.0 million for the three months ended December 31, 2007 was primarily attributable to \$4.2 million of interest income from senior secured loans investments, which had stated interest rates between 6.6% and 8.3% and a weighted average yield of 7.2%. We recorded interest income of \$2.8 million from our second lien secured debt investments, which had stated interest rates between 10.7% and 12.6% and a weighted average yield of 12.4%. We recorded interest income of \$1.7 million from our subordinated debt investments, which had stated interest rates between 11.7% and 14.3% and a weighted average yield of 13.4%. The remaining investment income was primarily attributable to interest income from short-term investments and to accretion of discount and amortization of premium.

Investment income totaled \$13.1 million for the period January 11, 2007 (inception) through September 30, 2007. The investment income was generated primarily from senior secured loan investments which had stated interest rates between 6.9% and 8.7%, and a weighted average yield of 7.5%. Our second lien secured debt investments had stated interest rates between 11.1% and 13.3% and weighted average yield of 12.9%. Our subordinated debt investments had stated interest rates between 11.7% and 14.3% and weighted average yield of 13.1%. Our total portfolio had a weighted average yield on debt investments of 10.1%.

### ***Expenses***

Net expenses totaled \$4.3 million and \$5.8 million for the three months ended December 31, 2007 and the period January 11, 2007 (inception) through September 30, 2007, respectively. Of these totals, \$1.1 million and \$1.8 million was attributable to credit facility related expenses for the three months ended December 31, 2007



and the period January 11, 2007 (inception) through September 30, 2007, respectively, and \$1.3 million and \$2.0 million to general and administrative expenses for the three months ended December 31, 2007 and the period January 11, 2007 (inception) through September 30, 2007, respectively. Net base management fee totaled \$1.4 million and \$ 1.9 million for the three months ended December 31, 2007 and the period January 11, 2007 (inception) through September 30, 2007, respectively. The performance-based incentive fee totaled approximately \$447,000 for the three months ended December 31, 2007. We paid no performance-based incentive fees for the period January 11, 2007 (inception) through September 30, 2007.

#### ***Net Investment Income***

Our net investment income totaled \$4.7 million and \$7.3 million or \$0.23 and \$0.35 per share, for the three months ended December 31, 2007 and the period January 11, 2007 (inception) through September 30, 2007, respectively.

#### ***Net Realized Loss***

Sales and paydowns of long-term investments totaled \$4.4 million and \$99.6 million, and net realized losses totaled approximately \$211,000 and \$82,000 for the three months ended December 31, 2007 and the period January 11, 2007 (inception) through September 30, 2007, respectively.

#### ***Net Unrealized Depreciation on Investments and Cash Equivalents***

For the three months ended December 31, 2007, the Company's investments and cash equivalents had a net increase in depreciation of \$16.1 million. On December 31, 2007, net unrealized depreciation on investments and cash equivalents totaled \$40.0 million, primarily due to the continued downturn in the leveraged finance credit market during the second half of 2007.

#### ***Net Decrease in Net Assets From Operations***

Net decrease in net assets resulting from operations totaled \$11.5 million and \$16.7 million, or \$0.54 and \$0.80 per share, for the three months ended December 31, 2007 and the period January 11, 2007 (inception) through September 30, 2007, respectively.

#### ***Liquidity and Capital Resources***

On June 25, 2007, we entered into a Senior Secured Revolving Credit Agreement (the "Credit Agreement") 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 book-runner, and Bear Stearns Corporate Lending Inc. acted as joint lead arranger and syndication agent. As of December 31, 2007, we had outstanding borrowings of \$91.5 million under the Credit Agreement, with an annual interest rate of 5.90%.

Under the Credit Agreement, the lenders agreed to extend us credit in an initial aggregate principal or face amount not exceeding \$300.0 million at any one time outstanding. The Credit Agreement 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.

On December 31, 2007, we had \$81.8 million in cash equivalents. During the three months ended December 31, 2007, we generated operating cash flows primarily from interest earned on debt investments. Our primary use of funds for operations during the same period consisted of investments in portfolio companies, payments of fees and other operating expenses incurred by the Company. Our operating activities resulted in a net use of cash of \$253.0 million for the three months ended December 31, 2007, and our financing activities resulted in a net inflow of cash of \$76.9 million for the same period, primarily from borrowings under our credit facility.

## Contractual Obligations

A summary of our significant contractual payment obligations for the repayment of outstanding borrowing under the multi-currency \$300 million, five-year, revolving credit facility maturing in June 2012 is as follows:

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior secured revolving credit facility <sup>(1)</sup>	\$91.5	—	—	91.5	—

(1) On December 31, 2007 \$208.5 million remained unused under our senior secured revolving credit facility.

We have entered into certain contracts under which we have material future commitments. On April 17, 2007 we entered into an Investment Management Agreement with PennantPark Investment Advisers in accordance with the 1940 Act, effective as of the completion of our initial public offering. PennantPark Investment Advisers now serves as our investment adviser in accordance with the terms of our Investment Management Agreement. Payments under our Investment Management Agreement in each reporting period is equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance. See “Certain Relationships and Transactions—Investment Management Agreement” and Note 3 to our financial statements for more information).

Under our Administration Agreement, dated April 17, 2007, 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.

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

## Recently issued accounting pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) 157, *Fair Value Measurements*, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 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. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, PennantPark is in the process of reviewing SFAS 157 against its valuation policies to determine future applicability.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB 115*. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, PennantPark is in the process of reviewing SFAS 159 against its valuation policies to determine future applicability.

## Distributions

In order to qualify as a regulated investment company and to avoid corporate level tax on income, we are required, under Subchapter M of the Code, to distribute at least 90% of our ordinary income and net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. Additionally, we must distribute at least 98% of our income (both ordinary income and net capital gains) to avoid an excise tax.

During the three months ended December 31, 2007 we paid to stockholders distributions of \$0.22 per share, for a total dividend of \$4.6 million. 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 after the end of the calendar year.

Of the amount distributed on December 31, 2007, approximately \$506,000 was reinvested under our dividend reinvestment plan.

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:

	<u>Dividend Declared</u>
<b>Fiscal year ending September 30, 2008</b>	
Second quarter	\$ 0.22
First quarter	\$ 0.22
<b>Fiscal year ended September 30, 2007</b>	
Fourth quarter	\$ 0.22
Third quarter	\$ 0.14
<b>Total fiscal year ended September 30, 2007</b>	<b>\$ 0.36-</b>

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

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.

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

We did not experience any compromised liquidity during the recent turmoil in the global credit markets because of our ability to liquidate our portfolio of senior secured loans, which totaled \$148.8 million as of December 31, 2007, and availability under our credit facility.

#### **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 the balance sheet as of the period covered by this report 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.

## PRICE RANGE OF COMMON STOCK

Our common stock is traded on the NASDAQ Global Select Market under the symbol "PNNT". The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on the NASDAQ Global Select Market. On March 24, 2008, the last reported closing price of our common stock was \$ 8.70 per share.

<u>Period</u>	<u>NAV<sup>(1)</sup></u>	<u>Closing Sales Price</u>		<u>Premium/ Discount of High Sales Price to NAV<sup>(2)</sup></u>	<u>Premium/ Discount of Low Sales Price to NAV<sup>(2)</sup></u>	<u>Declared Dividends</u>
		<u>High</u>	<u>Low</u>			
<b>Fiscal year ending September 30, 2008</b>						
Second quarter (through 3/24/08)	N/A	\$ 11.31	\$ 8.38	N/A	N/A	\$ 0.22
First quarter	\$ 12.07	\$ 14.49	\$ 9.08	120%	75%	\$ 0.22
<b>Fiscal year ended September 30, 2007</b>						
Fourth quarter	\$ 12.83	\$ 14.76	\$ 12.61	115%	98%	\$ 0.22
Third quarter*	\$ 13.74	\$ 15.03	\$ 14.04	109%	102%	\$ 0.14

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

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

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

### **PennantPark Investment Corporation**

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

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. From time to time, we may also invest in public companies whose securities are not thinly traded. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt and, to a lesser extent, equity investments.

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

While our primary focus is to generate current income and capital appreciation through debt and equity investments in thinly traded or private U.S. companies, we may invest up to 30% of the portfolio in opportunistic investments. These investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies that are not thinly traded and securities of companies located outside of the United States. We expect that these public companies generally will have debt securities that are non-investment grade.

The level of our investment activity in our core assets 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. Although we have used, and will continue to use, the proceeds of our initial public offering and of our credit facility, we anticipate that it will take us up to two years from the date of our initial public offering to invest all of our assets in accordance with our investment objectives. Any distributions we make during such period may be substantially lower than the distributions that we expect to pay when our portfolio is fully invested.

### **Operating Structure**

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of us and our Investment Adviser. 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. See “Certain Relationships and Transactions—Investment Management Agreement.”

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

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.

### **Our Investment Adviser and Administrator**

We utilize the investing experience and contacts of Arthur H. Penn, the founder of PennantPark Investment Corporation and PennantPark Investment Advisers, as well as the other investment professionals of the Investment adviser. Mr. Penn has over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. He has been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in each of these businesses. Mr. Penn is a Co-founder and former Managing Partner of Apollo Investment Management, which is the investment adviser of Apollo Investment Corporation, a publicly traded business development company. Mr. Penn served as the Chief Operating Officer and a member of the investment committee of Apollo Investment from its inception in April 2004 through February 2006 and was its President and Chief Operating Officer from February 2006 through November 30, 2006.

During the period in which Mr. Penn was the Chief Operating Officer, Apollo Investment Corporation raised approximately \$930 million of gross proceeds in an initial public offering in April 2004 and raised an additional \$308 million in a follow-on offering of public equity in March 2006. Mr. Penn supervised the negotiation and execution of a senior secured credit facility with a syndicate of banks which, as amended, provides for borrowings up to \$2.0 billion. During Mr. Penn's tenure with Apollo Investment Corporation, it invested approximately \$2.8 billion in 73 companies in partnership with 54 different financial sponsors.

During Mr. Penn's career in the financial services industry, he also served as Managing Partner of Apollo Value Fund L.P. (formerly Apollo Distressed Investment Fund, L.P.) from 2003 through November 2006. Mr. Penn previously served as Global Head of Leveraged Finance at UBS Warburg LLC (now UBS Securities LLC) from 1999 through 2001. Prior to joining UBS Warburg, Mr. Penn was Global Head of Fixed Income Capital markets for BT Securities and BT Alex Brown Incorporated from 1994 to 1999. In these capacities, Mr. Penn oversaw groups responsible for more than 200 high-yield and leveraged bank financings aggregating over \$34 billion in capital raised. From 1992 to 1994, Mr. Penn served as Head of High Yield Capital Markets at Lehman Brothers.

During his more than 20-year career in the financial services industry, Mr. Penn has developed a network of financial sponsor relationships as well as relationships with management teams, investment bankers, attorneys and accountants that we believe will provide us with access to substantial investment opportunities.

Our Investment Adviser has three experienced investment professionals, in addition to Mr. Penn, who are also partners. These professionals, Geoffrey Chang, Salvatore Giannetti III and Whit Williams, have a combined 44 years of experience in the mezzanine, private equity and leveraged finance businesses. Mr. Chang was previously a founding member and Principal of Audax Mezzanine from 2000 through 2007 and, prior to that was a Director in the Leveraged Finance Group at CIBC World Markets Corp. Mr. Giannetti previously served as Partner in the private equity firm of Wilton Ivy Partners from 2004 through 2007. Prior to joining Wilton Ivy Partners, he was a Managing Director at UBS Warburg LLC in its Leveraged Finance and Financial Sponsors Groups from March 2000 to November 2001. Mr. Williams was an officer at UBS Investment Bank from 1996 to March 2007, most recently as a Managing Director in its Leveraged Finance and Financial Sponsors Group. They are supported by a team of employees, including three investment professionals who have experience in middle-market investing, leveraged finance and capital markets.

Our Administrator has experienced professionals including, Aviv Efrat, who serves as our Chief Financial Officer and Treasurer. Mr. Efrat, who is also a Managing Director of the Administrator, has extensive experience in finance, operations, and administration of registered investment companies, having served for a decade as a Director at BlackRock, Inc., a leading investment firm. Matthew Hardin, who serves as our Chief Compliance Officer, has over 20 years of regulatory compliance and securities law experience in the financial services industry, having served as Corporate and General Counsel with various organizations and as an enforcement attorney with the SEC.

In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC. The Administrator oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to provide such assistance. See “Risk Factors—Risks Related to our Business and Structure.”

### **Market Opportunity**

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

- **We believe middle-market companies have faced increasing difficulty in raising debt through the capital markets.** While many middle-market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult as institutional investors have sought to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield debt securities.
- **We believe that the current credit market dislocation improves the risk/reward of our investment.** The downturn in the credit market has resulted in less competition, more conservative capital structures, higher yields and stronger covenants.
- **We believe there is a large pool of uninvested private equity capital likely to seek mezzanine capital to support private investments.** We expect that private equity firms will continue to be active investors in middle-market companies and that these private equity funds will seek to leverage their investments by combining capital with mezzanine loans and/or senior secured loans from other sources. We expect such activity to be funded by the record amounts of private equity capital that have been raised in recent years.
- **We believe that opportunities to invest mezzanine and other debt capital will remain strong.** We expect that the volume of domestic “public-to-private” transactions as well as the number of companies selecting a “sale” alternative versus raising capital in the public equity markets as a means of increasing liquidity will remain large. Additionally, the cost and effort associated with being a public company in the United States have become more onerous, causing many management teams to consider alternative liquidity strategies.

### **Competitive Advantages**

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

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

We employ a disciplined approach in selecting investments that meet our value-oriented investment criteria employed by the Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We do not intend to pursue short-term origination targets. We believe our approach will enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

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



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

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

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

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

We expect that the in-depth coverage and experience of Mr. Penn, as well as that of the other investment professionals of our Investment Adviser, will enable us to invest throughout various stages of the economic cycle and will provide us with ongoing market insights in addition to a significant investment sourcing engine.

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

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

### **Competition**

Our primary competitors provide financing to middle-market companies and include other business development companies, commercial and investment banks, commercial financing companies, and to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified. However, we believe that there has been a reduction in the amount of debt capital available for lending in leveraged buyout transactions since the downturn in the credit markets, which began in mid-2007. This has resulted in a less competitive environment.

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

We use the industry information available to our Investment Adviser to assess investment risks and determine appropriate pricing for our investments in portfolio companies. We benefit from the relationships of Messrs. Penn, Chang, Giannetti and Williams, and other of our senior investment professionals retained by our Investment Adviser, who enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we invest. For additional information concerning the competitive risks we face, see "Risk Factors—Risks relating to our business and structure-We operate in a highly competitive market for investment opportunities."

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**Leverage**

On June 25, 2007, we entered into a credit agreement 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 book-runner, and Bear Stearns Corporate Lending Inc. acted as joint lead arranger and syndication agent. As of September 30, 2007 and December 31, 2007, we had outstanding borrowings of \$10.0 million and \$91.5 million, respectively, under our credit agreement, with an annual interest rate of 6.15% and 5.90%, respectively.

Under the Credit Agreement, the lenders agreed to extend us credit in an initial aggregate principal or face amount not exceeding \$300.0 million at any one time outstanding. The Credit Agreement 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 the credit agreement is set at 100 basis points over LIBOR.

## SENIOR SECURITIES

Information about our senior securities is shown in the following table for the three months ended December 31, 2007 and the period January 11, 2007 (inception) through September 30, 2007. The information for the period January 11, 2007 (inception) through September 30, 2007 has been derived from our financial statements which have been audited by KPMG LLP. The “—” indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

<u>Class and Year</u>	<u>Total Amount Outstanding<sup>(1)</sup></u>	<u>Asset Coverage per Unit<sup>(2)</sup></u>	<u>Involuntary Liquidating Preference Per Unit<sup>(3)</sup></u>	<u>Average Market Value Per Unit<sup>(4)</sup></u>
<b>Credit Facility</b>				
Fiscal 2008 (as of December 31, 2007, unaudited)	\$ 91,500	\$ 3,778	\$ —	N/A
Fiscal 2007 (as of September 30, 2007)	\$ 10,000	\$ 28,039	\$ —	N/A

- (1) Total amount 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 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.

### Investment Policy Overview

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

Over time, we expect that our portfolio will continue to consist of mezzanine debt, senior secured loans and, to a lesser extent, equity investments. In addition to mezzanine debt and equity investments in private or thinly traded public middle-market U.S. companies, we may invest up to 30% of our portfolio in opportunistic investments. These investments may include investments in public companies whose securities are not thinly traded, securities of middle-market companies located outside of the United States and certain investment companies. We expect that these companies will generally issue debt securities that are not investment grade. Moreover, we may acquire investments in the secondary market. In analyzing such investments, we will employ the same analytical process as we use for our primary investments.

Additionally, we may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to the subsidiary. This could include sales of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans. See "Investment Objectives and Policies—Investment selection criteria."

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

### Mezzanine Debt

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

### Investment selection criteria

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

We have identified several criteria that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions; however, we caution that not all of these criteria will be met by each prospective portfolio company in which we choose to invest.

Generally, we seek to use our experience and access to market information to identify investment candidates and to structure investments quickly and effectively.

#### *Value orientation and positive cash flow*

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

#### *Experienced management and established financial sponsor relationship*

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

#### *Strong and defensible competitive market position in industry*

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

#### *Viable exit strategy*

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

#### **Due diligence**

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

Our due diligence typically includes:

- review of historical and prospective financial information;
- on-site visits;
- interviews with management, employees, customers and vendors of the potential portfolio company;
- review of loan documents;
- background checks; and
- research relating to the company's management, industry, markets, products and services and competitors.

Upon the completion of due diligence and a decision to proceed with an investment in a company, the principals leading the investment present the investment opportunity to our Investment Adviser's investment committee. This committee determines whether to pursue the potential investment. All new investments are required to be reviewed by the investment committee of our Investment Adviser, which currently consists of Messrs. Penn, Chang, Giannetti and Williams, subject to final approval by Mr. Penn. As our Investment Adviser adds senior investment professionals, our Investment Adviser may add them to its investment committee. The members of our investment committee receive no compensation from us. These members are employees of our Investment Adviser and receive compensation from our Investment Adviser.

Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent auditors prior to the closing of the investment, as well as other outside advisers, as appropriate.

### **Investment structure**

Once we determine that a prospective portfolio company is suitable for investment, we work with the management of that company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. We negotiate among these parties to agree on how our investment is expected to perform relative to the other capital in the portfolio company's capital structure.

Mezzanine debt typically has interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine debt. In some cases, we may enter into mezzanine debt that, by its terms, converts into equity or additional debt securities or defers payments of interest for the first few years after our investment. Also, in some cases our mezzanine debt may be collateralized by a subordinated lien on some or all of the assets of the borrower. Typically, our mezzanine debt has maturities of three to ten years.

We expect our senior secured loans to have terms of three to ten years. We generally obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of these loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

In the case of our mezzanine debt and senior secured loan investments, we seek to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we seek to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- incorporating "put" rights and call protection into the investment structure; and
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Our investments may include equity features, such as direct investments in the equity securities of borrowers or warrants or options to buy a minority interest in a portfolio company. Any warrants we may receive with our debt securities generally require only a nominal cost to exercise, so as a portfolio company appreciates in value, we may achieve additional investment return from these equity investments. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we may also obtain registration rights in connection with these equity investments, which may include demand and "piggyback" registration rights.

We expect to hold most of our investments to maturity or repayment, but may sell certain investments earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company.

## Ongoing relationships with portfolio companies

### Monitoring

The Investment Adviser monitors our portfolio companies on an ongoing basis. The Investment Adviser monitors the financial trends of each portfolio company to determine if they are meeting their respective business plans and to assess the appropriate course of action for each company.

The Investment Adviser has several methods of evaluating and monitoring the performance and fair value of our investments, which may include the following:

- Assessment of success in adhering to portfolio company's business plan and compliance with covenants;
- Periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- Comparisons to other PennantPark portfolio companies in the industry, if any;
- Attendance at and participation in board meetings; and
- Review of monthly and quarterly financial statements and financial projections for portfolio companies.

### Valuation Process

The following is a description of the steps we take each quarter to determine the value of our portfolio. 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 an independent pricing service or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investment by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. With respect to investments for which market quotations are not readily available or are readily available but believed to not reflect the value of an investment, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- Our board of directors also engages one or more independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but believed to not reflect the value of an investment. The independent valuation firm reviews management's preliminary valuations in light of its own independent assessment;
- The audit committee of our board of directors reviews the preliminary valuations of our 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
- 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.

When we make investments that involve deferrals of interest payable to us, any increase in the value of the investment due to the accrual or receipt of payment of interest is allocated to the increase in the cost basis of the investment, rather than to capital appreciation or gain.

It is possible that future events unforeseen by us or our Investment Adviser, such as a disturbance in the global credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or other general market disturbance, will negatively impact the market for leveraged finance instruments. If the market for our investments is substantially eroded, we may not find purchasers for our portfolio securities at all, or we may be able to sell them only for a fraction of their previously recorded value. During such times, our board of directors, in conjunction with our Investment Adviser and one or more independent valuation firms will continue to determine the fair value of our investments in accordance with our valuation process enumerated above. They will take into account the applicable market conditions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. 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.

#### **Managerial assistance**

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Our Administrator provides such managerial assistance on our behalf to portfolio companies that request this assistance. We have not received any fees for such services since inception.

#### **Staffing**

We do not currently have any employees. Mr. Penn, our Chief Executive Officer, is the Managing Member of our Investment Adviser. Our Investment Adviser currently has four senior investment professionals, Messrs. Chang, Giannetti, Penn and Williams. In addition, Mr. Efrat, our Chief Financial Officer and Treasurer, is a Managing Director of our Administrator, and Mr. Hardin is our Chief Compliance Officer. Our Administrator and our Investment Adviser have hired and expect to continue to hire professionals with skills applicable to our business plan, including experience in middle-market investing, leveraged finance and capital markets.



## Our Portfolio

Our principal investment focus is to provide mezzanine debt and senior secured loans to U.S. middle-market companies in a variety of industries. We generally seek to target companies that generate positive cash flows from the broad variety of industries in which our Investment Adviser has direct expertise. The following is a representative list of the industries in which we have invested:

- Aerospace Defense
- Broadcasting & Entertainment
- Buildings & Real Estate
- Business Services
- Cable TV
- Cargo Transport
- Chemical, Plastics, & Rubber
- Consumer Products
- Containers, Packaging, & Glass
- Education
- Energy/Utilities
- Healthcare, Education & Childcare
- Home & Office Furnishings, Housewares, Durable Consumer Products
- Leisure, Amusement, Motion Pictures, Entertainment
- Manufacturing/Basic Industry
- Media
- Oil & Gas
- Other Media
- Printing & Publishing
- Telecommunications
- Retail Store
- Transportation
- Utilities

We may invest in other industries if we are presented with attractive opportunities.

Listed below are our top ten portfolio companies and industries represented as a percentage of portfolio assets (excluding cash equivalents) as of :

<u>Portfolio Company</u>	<u>December 31, 2007</u>	<u>Portfolio Company</u>	<u>September 30, 2007</u>
Specialized Technology Resources, Inc.	7%	Realogy Corp.	7%
Brand Energy	6%	Saint Acquisition Corp.	7%
Interdynamics Holdings, Inc.	6%	Advanstar, Inc.	6%
Realogy Crop.	5%	Affinion Group Holding, Inc.	6%
Affinion Group Holdings, Inc.	5%	Performance Holdings, Inc.	6%
Performance Holdings, Inc.	5%	Specialized Technology Resources, Inc.	6%
Saint Acquisition Corp.	4%	Charter Communications Operating, L.L.C.	5%
Advanstar, Inc.	4%	Questex Media Group, Inc.	5%
Questex Media Group, Inc.	4%	Univision Communications, Inc.	5%
Charter Communications Operating, L.L.C.	4%	TransFirst Holdings, Inc.	4%

<u>Industry</u>	<u>December 31, 2007</u>	<u>Industry</u>	<u>September 30, 2007</u>
Other Media	13%	Other Media	15%
Healthcare, Education & Childcare	10%	Consumer Products	8%
Chemical, Plastics & Rubber	7%	Buildings & Real Estate	7%
Energy/Utilities	7%	Business Services	7%
Auto Sector	6%	Home & Office Furnishings, House wares & Durable Consumer Products	7%
Consumer Products	6%	Transportation	7%
Buildings and Real Estate	5%	Chemical, Plastics, & Rubber	6%
Business Services	5%	Leisure, Amusement, Motion Pictures, Entertainment	6%
Home and Office Furnishings, Housewares, & Durable Consumer Products	5%	Broadcasting & Entertainment	5%
Leisure, Amusement, Motion Pictures, Entertainment	5%	Cable Television	5%

We may invest from time to time, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds. We may also co-invest in the future on a concurrent basis with affiliates of PennantPark, subject to compliance with applicable regulations and our allocation procedures. Some types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

On December 31, 2007, our portfolio consisted of thirty-eight companies and was invested 21% in subordinated debt, 33% in second lien secured debt, 2% in equity investments and 44% in senior secured loans.

## PORTFOLIO COMPANIES

The following is a listing of each portfolio company or its affiliate, together referred to as portfolio companies, in which we had an investment at December 31, 2007. Percentages shown for class of investment securities held by us represent percentage of the class owned and do not necessarily represent voting ownership or economic ownership. Percentages shown for equity securities, other than warrants or options held, if any, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants or options held, if any, represent the percentage of class of security we may own on a fully diluted basis assuming we exercise our warrants or options.

The portfolio companies are presented in three categories: “companies more than 25% owned” which represent portfolio companies where we directly or indirectly own more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the 1940 Act; “companies owned 5% to 25%” which represent portfolio companies where we directly or indirectly own 5% to 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company’s board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and “companies less than 5% owned” which represent portfolio companies where we directly or indirectly own less than 5% of the outstanding voting securities of such portfolio company and where we have no other affiliations with such portfolio company. We make available significant managerial assistance to our portfolio companies. As of December 31, 2007 we held no seats on any of our portfolio companies’ board of directors.

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Percentage of Class Held <sup>(1)</sup>
<b>Companies More Than 25% Owned</b>			
None			
<b>Companies 5% to 25% Owned</b>			
PERFORMANCE HOLDINGS, INC. / PERFORMANCE INC.  ONE PERFORMANCE WAY CHAPEL HILL, NC 27514	LEISURE, AMUSEMENT, MOTION PICTURES, ENTERTAINMENT	Subordinated Debt, Second Lien Secured Debt, Common Equity	6.3%
<b>Companies Less Than 5% Owned</b>			
ADVANSTAR, INC. / VSS-AHC HOLDINGS, LLC  641 LEXINGTON AVENUE 8 <sup>TH</sup> FLOOR NEW YORK, NY 10022	OTHER MEDIA	Subordinated Debt Common Equity	0.9%
AFFINION GROUP HOLDINGS, INC. 100 CONNECTICUT AVENUE NORWALK, CA 06850	CONSUMER PRODUCTS	Subordinated Debt	—
BERRY PLASTICS GROUP, INC. 101 OAKLEY STREET EVANSVILLE, IN 47710	CONTAINERS, PACKAGING & GLASS	First Lien Secured Debt	—

Name and Address of Portfolio Company	Nature of Business	Type of Investment		Percentage of Class Held <sup>(1)</sup>
		First Lien Secured Debt	Second Lien Secured Debt	
BRAND ENERGY & INFRASTRUCTURE SERVICES, INC. 2505 SOUTH MAIN STREET KENNESAW, GA 30144	ENERGY / UTILITIES	First Lien Secured Debt	Second Lien Secured Debt	—
BURLINGTON COAT FACTORY WAREHOUSE CORP. 1830 RT. 130 BURLINGTON, NJ 08016	RETAIL STORE	First Lien Secured Debt		—
CHARTER COMMUNICATIONS OPERATING, L.L.C. 12405 POWERSCOURT DRIVE ST. LOUIS, MO 63131	CABLE TELEVISION	First Lien Secured Debt		—
COHR HOLDINGS, INC. 21540 PLUMMER STREET SUITE 400 CHATSWORTH, CA 91311	HEALTHCARE, EDUCATION & CHILDCARE	First Lien Secured Debt		—
GATEHOUSE MEDIA OPERATING, INC. 350 WILLOWBROOK OFFICE PARK FAIRPORT, NY 14450	MEDIA	First Lien Secured Debt		—
GENERAL NUTRITION CENTERS, INC. 300 SIXTH AVENUE PITTSBURGH, PA 15222	RETAIL STORE	First Lien Secured Debt		—
GENERICS INTERNATIONAL (U.S.), INC. 130 VINTAGE DRIVE HUNTSVILLE, AL 35811	HEALTHCARE, EDUCATION & CHILDCARE	Second Lien Secured Debt		—
GREATWIDE LOGISTICS SERVICES, INC. 12404 PARK CENTRAL DR. SUITE 3000 SOUTH DALLAS, TX 75251	CARGO TRANSPORT	First Lien Secured Debt		—
HANLEY-WOOD, L.L.C. ONE THOMAS CIRCLE, NW SUITE 600 WASHINGTON, DC 20005	OTHER MEDIA	First Lien Secured Debt		—
HAWKER BEECHCRAFT, INC. P.O. BOX 85 WICHITA, KS 67201	AEROSPACE & DEFENSE	First Lien Secured Debt		—

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Percentage of Class Held <sup>(1)</sup>
HEALTH MANAGEMENT ASSOCIATES, INC.  5811 PELICAN BAY BLVD. SUITE 500 NAPLES, FL 34108	HEALTHCARE, EDUCATION & CHILDCARE	First Lien Secured Debt	—
HUGHES NETWORK SYSTEMS, L.L.C. 11717 EXPLORATION LANE GERMANTOWN, MD 20876	TELECOMMUNICATIONS	First Lien Secured Debt	—
INTERDYNAMICS HOLDINGS, INC. 560 WHITE PLAINS ROAD 6 <sup>TH</sup> FLOOR TARRYTOWN, NY 10591	AUTO SECTOR	Subordinated Debt	—
JACUZZI BRANDS CORP.  777 S. FLAGLER DRIVE SUITE 1100-WEST WEST PALM BEACH, FL. 33401	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	First Lien Secured Debt	—
LEVLAD, L.L.C. C/O HARVEST PARTNERS, INC. 280 PARK AVENUE NEW YORK, NY 10017	CONSUMER PRODUCTS	First Lien Secured Debt	—
LONGVIEW POWER, L.L.C. 1040 GREAT PLAIN AVENUE NEEDHAM, MA 02492	UTILITIES	First Lien Secured Debt	—
MACH GEN, L.L.C. 9300 US HIGHWAY 9W ATHENS, NY 12015	UTILITIES	First Lien Secured Debt	—
MATTRESS HOLDING CORP.  5815 GULF FREEAY HOUSTON, TX 77023	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	First Lien Secured Debt	—
MITCHELL INTERNATIONAL, INC. 9889 WILLOW CREEK ROAD SAN DIEGO, CA 92131	BUSINESS SERVICES	First Lien Secured Debt	—
NATIONAL BEDDING CO., L.L.C.  5401 TRILLIUM BLVD. SUITE 250 HOFFMAN ESTATES, IL 60192	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	First Lien Secured Debt	—

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Percentage of Class Held <sup>(1)</sup>
PENTON MEDIA, INC. 249 W. 17 <sup>TH</sup> STREET FOURTH FLOOR NEW YORK, NY 10011	OTHER MEDIA	First Lien Secured Debt	—
PHILOSOPHY, INC. 4602 EAST HAMMOND LANE PHOENIX, AZ 85034	CONSUMER PRODUCTS	First Lien Secured Debt	—
QUESTEX MEDIA GROUP, INC. 275 GROVE STREET SUITE 2-130 NEWTON, MA 02466	OTHER MEDIA	First Lien Secured Debt Second Lien Secured Debt	—
READER'S DIGEST ASSOCIATION, INC. READERS DIGEST ROAD PLEASANTVILLE, NY 10570	PRINTING & PUBLISHING	First Lien Secured Debt	—
REALOGY CORP. ONE CAMPUS DRIVE PARSIPPANY, NJ 07054	BUILDINGS & REAL ESTATE	Subordinated Debt	—
REXNORD, L.L.C. 5555 S. WOODLAND ROAD NEW BERLIN, WI 53151	MANUFACTURING/ BASIC INDUSTRIES	First Lien Secured Debt	—
SAINT ACQUISITION CORP. 2200 SOUTH 75 <sup>TH</sup> AVENUE PHOENIX, AZ 85043	TRANSPORTATION	Second Lien Secured Debt	—
SHERIDAN HOLDINGS, INC. 1613 N. HARRISON PARKWAY SUITE 200 SUNRISE, FL 33323	HEALTHCARE, EDUCATION & CHILDCARE	Second Lien Secured Debt	—
SITEL, L.L.C. TWO AMERICAN CENTER 3102 WEST END AVENUE SUITE 1000 NASHVILLE, TN 37203	BUSINESS SERVICES	First Lien Secured Debt	—
SPECIALIZED TECHNOLOGY RESOURCES, INC. 10 WATER STREET ENFIELD, CT 06082	CHEMICAL, PLASTICS & RUBBER	Second Lien Secured Debt	—
TRANSFIRST HOLDINGS, INC. 5950 BERKSHIRE LANE SUITE 1100 DALLAS, TEXAS 75225	BUSINESS SERVICES	Second Lien Secured Debt	—

Name and Address of Portfolio Company	Nature of Business	Type of Investment	Percentage of Class Held <sup>(1)</sup>
UNIVISION COMMUNICATIONS INC. 1999 AVENUE OF THE STARS LOS ANGELES, CA 90067	BROADCASTING & ENTERTAINMENT	First Lien Secured Debt	—
VALASSIS COMMUNICATIONS, INC. 19975 VICTOR PARKWAY LIVONIA, MI 48152	PRINTING & PUBLISHING	First Lien Secured Debt	—
WESTERN REFINING, INC. 23733 NORTH SCOTTSDALE RD. SCOTTSDALE, AZ 85255	OIL & GAS	First Lien Secured Debt	—

(1) Percentage of class held refers only to common equity, preferred equity and warrants held, if any.

Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets at December 31, 2007.

*Brand Energy & Infrastructure Services, Inc.*

The company is a diversified provider of specialty services, including scaffolding, industrial coatings, insulation, refractory, and forming and shoring solutions, to North America's energy markets. The company operates in five key energy sectors: refinery, petrochemical, oil sands, power generation and offshore oil and gas. Brand Energy also serves the commercial and infrastructure construction markets throughout North America and in strategic international regions.

*Specialized Technology Resources, Inc.*

The company is a leader in the consumer testing and inspection market, as well as the leading global provider of solar encapsulants.

The industry composition of the portfolio at fair value on September 30, 2007 and December 31, 2007 was as follows, excluding unearned income:

<u>Industry Classification</u>	<u>December 31, 2007</u>	<u>September 30, 2007</u>
Other Media	13%	15%
Healthcare, Education & Childcare	10	4
Chemical, Plastics & Rubber	7	6
Energy/Utilities	7	0
Auto Sector	6	0
Consumer Products	6	8
Buildings and Real Estate	5	7
Business Services	5	7
Home and Office Furnishings, Housewares, & Durable Consumer Products	5	7
Leisure, Amusement, Motion Pictures, Entertainment	5	6
Broadcasting and Entertainment	4	5
Cable Television	4	5
Retail Store	4	5
Transportation	4	7
Printing and Publishing	3	3
Cargo Transport	2	2
Containers, Packaging and Glass	2	2
Media	2	2
Utilities	2	2
Manufacturing / Basic Industries	1	2
Oil and Gas	1	2
Telecommunications	1	2
Aerospace & Defense	1	1
<b>Total Investments</b>	<u>100%</u>	<u>100%</u>



## MANAGEMENT

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

### Board of Directors

Under our charter, our directors are divided into three classes. Each class of directors holds office for a three-year term. However, the initial members of classes II and III have initial terms of two and three years, respectively. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Information regarding the board of directors is as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Expiration of Term</u>
<b>Independent directors</b>				
Adam K. Bernstein	44	Director	2007	2009
Marshall Brozost	40	Director	2007	2011
Jeffrey Flug	45	Director	2007	2009
Samuel L. Katz	42	Director	2007	2011
<b>Interested directors</b>				
Arthur H. Penn	44	Chairman of Board and Chief Executive Officer	2007	2010

The address for each director is 590 Madison Avenue, 15<sup>th</sup> Floor, New York, New York 10022.

### Executive Officers Who are Not Directors

Information regarding our executive officers who are not directors is as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Aviv Efrat	43	Chief Financial Officer
Matthew Hardin	46	Chief Compliance Officer

The address for each executive officer is 590 Madison Avenue, 15<sup>th</sup> Floor, New York, New York 10022, or by telephone at (212) 905-1000.

### Biographical Information

Our directors have been divided into two groups—interested directors and independent directors. Interested directors are “interested persons” as defined in the 1940 Act.

#### *Independent Directors*

Adam K. Bernstein (44), Director. Mr. Bernstein became a director of PennantPark in February 2007. Mr. Bernstein is currently President of The Bernstein Companies, a Washington, D.C.-based real estate firm which he founded in 1985. Mr. Bernstein also serves as the President and Chief Executive Officer of Consortium Atlantic Realty Trust, Inc., a private real estate investment trust operating in the Mid-Atlantic region since its formation in 2000. Mr. Bernstein is the President of the Mid-Atlantic Regional Advisory Board of the University of Pennsylvania.

Marshall Brozost (40), Director. Mr. Brozost became a director of PennantPark in February 2007. Since 2007, Mr. Brozost has been Partner at the international law firm of Dewey & LeBoeuf LLP, where he practices in the real estate and private equity groups. Prior to his tenure at Dewey & LeBoeuf LLP which began in 2005, Mr. Brozost practiced law at O'Melveny & Myers LLP from 2001 to 2004 and Solomon & Weinberg LLP from 2004 to 2005. Mr. Brozost also served as a vice president of Nomura Asset Capital Corporation from 1997 through 2000.

Jeffrey Flug (45), Director. Mr. Flug became a director of PennantPark in February 2007. Mr. Flug has been the Chief Executive Officer and Executive Director of Millennium Promise Alliance, Inc. since 2006. Millennium Promise is a non-profit organization whose mission is to eradicate extreme global poverty. Prior to joining Millennium Promise, Mr. Flug was Managing Director and Head of North American Institutional Sales at JP Morgan's Investment Bank from 2000 to 2006. From 1988 to 2000, Mr. Flug was Managing Director for Goldman Sachs & Co. in its Fixed Income Division.

Samuel L. Katz (42), Director. Mr. Katz became a director of PennantPark in February 2007. Since 2007, Mr. Katz is the Managing Partner of TZP Group LLC, a private equity fund. He served as Chief Executive Officer of MacAndrews & Forbes Acquisition Holdings, Inc. from 2006 to 2007. From 1996 to 2006, Mr. Katz held a variety of senior positions at Cendant Corporation including, most recently, Chairman and Chief Executive Officer of the Cendant Travel Distribution Services Division from 2001 to 2005. Mr. Katz was also Co-Chairman of Cendant's Marketing Services Division as well as Chief Strategic Officer.

#### ***Interested Director***

Arthur H. Penn (44) Founder, Chief Executive Officer and Chairman of the Board of Directors. Mr. Penn became the chief executive officer and a director of PennantPark at its inception in January 2007. He also founded and became Managing Member of PennantPark Investment Advisers in January 2007. Mr. Penn co-founded Apollo Investment Management in 2004, where he was a Managing Partner from 2004 to 2006. He also served as Chief Operating Officer of Apollo Investment Corporation from its inception in 2004 to 2006 and served as President and Chief Operating Officer of that company in 2006. Mr. Penn was formerly a Managing Partner of Apollo Value Fund L.P. (formerly Apollo Distressed Investment Fund, L.P.) from 2003 to 2006. From 2002 to 2003, prior to joining Apollo, Mr. Penn was a Managing Director of CDC-IXIS Capital Markets. Mr. Penn previously served as Global Head of Leveraged Finance at UBS Warburg LLC (now UBS Investment Bank) from 1999 through 2001. Prior to joining UBS Warburg, Mr. Penn was Global Head of Fixed Income Capital markets for BT Securities and BT Alex. Brown Incorporated from 1994 to 1999. From 1992 to 1994, Mr. Penn served as Head of High-Yield Capital Markets at Lehman Brothers.

#### ***Executive Officers who are not Directors***

Aviv Efrat (43), Chief Financial Officer and Treasurer. Mr. Efrat joined PennantPark in February 2007 as its Chief Financial Officer and Treasurer. Mr. Efrat is also a Managing Director of PennantPark Investment Administration, LLC. Mr. Efrat was a Director at BlackRock, Inc., a leading investment firm, where he was responsible for a variety of administrative, operational, and financial aspects of closed-end and open-end registered investment companies from 1997 to 2007. From 1994 to 1997, Mr. Efrat was in the Investment Companies Business Unit at Deloitte & Touche LLP. He is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. Mr. Efrat earned his B.S. in Economics from Brigham Young University in 1991 and an M.B.A. from New York University in 1999.

Matthew Hardin (46) Chief Compliance Officer. Mr. Hardin became PennantPark's Chief Compliance Officer in August 2007. From 1999 to 2006 Mr. Hardin was Chief Broker-Dealer Counsel at the PNC Financial Services Group, Inc. responsible for Registered Investment Advisers, regulatory examinations and compliance oversights. From 1993 to 1999 Mr. Hardin was Corporate Counsel and General Counsel for Federated Investors and for Banc One Corporation, respectively, responsible for Mutual Funds. From 1989 to 1992 Mr. Hardin was Senior Counsel for the SEC.

## **Committees of the Board of Directors**

For the fiscal year ended September 30, 2007, we held six board meetings, three Audit Committee meetings and one Nominating and Corporate Governance Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the board of directors and of the respective committees on which they served. We require each director to make a diligent effort to attend all board and committee meetings and encourage directors to attend the annual meeting of stockholders.

### ***Audit Committee***

The members of the Audit Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and NASDAQ corporate governance regulations. Mr. Flug serves as chairman of the audit committee. The Audit Committee operates pursuant to an Audit Committee Charter approved by the Board of Directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm (the “auditors”) to audit the accounts and records of the Company; reviewing and discussing with management and the auditors the annual audited financial statements of the Company, including disclosures made in management’s discussion and analysis, and recommending to the Board of Directors whether the audited financial statements should be included in the Company’s annual report on Form 10-K; reviewing and discussing with management and the auditors the Company’s quarterly financial statements prior to the filings of its quarterly reports on Form 10-Q; pre-approving the auditors’ engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the auditors. The Audit Committee is also responsible for aiding our board of directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The board of directors and Audit Committee may use the services of nationally recognized independent valuation firms to help them determine the fair value of these securities. The Company’s Board of Directors has determined that Mr. Flug is our “Audit Committee financial expert” as that term is defined under Item 401 of Regulation S-K under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Audit Committee Charter is available on the Company’s website: <http://www.pennantpark.com>.

### ***Nominating and Corporate Governance Committee***

The members of the Nominating and Corporate Governance Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the corporate governance regulations of the NASDAQ Global Market. Messrs. Bernstein and Brozost serve as co-chairmen of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the Board or a committee of the Board, developing and recommending to the Board a set of corporate governance principles and overseeing the evaluation of the Board and our management. The Nominating and Corporate Governance Committee has adopted a written Nominating and Corporate Governance Committee Charter that is available on the Company’s website: <http://www.pennantpark.com>.

The Nominating and Corporate Governance Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with the Company’s bylaws, the Nominating and Corporate Governance Committee Charter and any applicable law, rule or regulation regarding director nominations. Nominations should be sent to Thomas Friedmann, Secretary, c/o PennantPark Investment Corporation, 590 Madison Avenue, 15th Floor, New York, New York 10022. When submitting a nomination to the Company for consideration, a stockholder must provide all information that would be required under applicable SEC rules to be disclosed in connection with election of a director, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of the Company’s common stock owned, if any; and, a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders.

Criteria considered by the Nominating and Corporate Governance Committee in evaluating the qualifications of individuals for election as members of the Board of Directors include compliance with the independence and other applicable requirements of the NASDAQ Listing Standards and the 1940 Act, and all other applicable laws, rules, regulations and listing standards, the criteria, policies and principles set forth in the Nominating and Corporate Governance Committee Charter, and the ability to contribute to the effective management of the Company, taking into account the needs of the Company and such factors as the individual's experience, perspective, skills and knowledge of the industry in which the Company operates. The Nominating and Corporate Governance Committee also may consider such other factors as it may deem are in the best interests of the Company and its stockholders. The Board of Directors also believes it is appropriate for a key member of the Company's management to participate as a member of the Board of Directors.

#### **Compensation Committee**

We do not have a compensation committee because our executive officers do not receive compensation from us.

#### **Compensation of Directors**

The following table shows information regarding the compensation paid by us to our directors for the fiscal year ended September 30, 2007. No compensation is paid by us to any interested director or executive officer.

<u>Name</u>	<u>Aggregate compensation from the Company</u>	<u>Pension or retirement benefits accrued as part of our expense<sup>(1)</sup></u>	<u>Total paid to director / officer</u>
<b>Independent directors</b>			
Adam K. Bernstein	29,375	None	29,375
Marshall Brozost	29,375	None	29,375
Jeffrey Flug	30,625	None	30,625
Samuel L. Katz	28,750	None	28,750
<b>Interested director</b>			
Arthur H. Penn	None	None	None
<b>Executive officers</b>			
Aviv Efrat <sup>(2)</sup>	None	None	None
Matthew Hardin	None	None	None

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits from us.

(2) Mr. Efrat is an employee of PennantPark Investment Administration, LLC.

Independent directors each receive an annual fee of \$75,000. The independent directors also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting (unless combined with a board meeting). In addition, the Chairman of the Audit Committee receives an annual fee of \$7,500 and each chairman/co-chairman of any other committee receives an annual fee of \$2,500 for their additional services in these capacities. Also, we have purchased directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment. No compensation is paid to directors who are "interested persons."

## CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

As of December 31, 2007, to our knowledge, no person would be deemed to control us, as such term is defined in the Investment Company Act of 1940, as amended (the "1940 Act").

Our directors consist of an interested director and independent directors. An interested director is an "interested person" of the Company, as defined in the 1940 Act.

The following table sets forth, as of December 31, 2007, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5 percent or more of our outstanding common stock and all officers and directors, as a group.

<u>Name and address<sup>(1)</sup></u>	<u>Type of ownership<sup>(4)</sup></u>	<u>Shares owned</u>	<u>Percentage of Common Stock Outstanding</u>
<b>UBS AG</b>			
c/o UBS Global Asset Management (Americas), Inc. One North Wacker Chicago, Illinois 60606	Beneficial	2,512,324	11.92%
<b>Independent directors</b>			
Adam K. Bernstein <sup>(2)</sup>	Record/Beneficial	69,913	*
Marshall Brozost	Record	6,992	*
Jeffrey Flug	Record	69,913	*
Samuel L. Katz	Record	10,487	*
<b>Interested director</b>			
Arthur H. Penn <sup>(3)</sup>	Record/Beneficial	240,291	1.14%
<b>Executive officers</b>			
Aviv Efrat	Record	9,992	*
Matthew Hardin	—	—	—
All Directors and Officers as a group (7 persons)	Record/Beneficial	407,771	1.94%

(1) The address for each officer and director is c/o PennantPark Investment Corporation, 590 Madison Avenue, 15<sup>th</sup> Floor, New York, New York 10022

(2) Mr. Bernstein is the President of JAM Investments, LLC and may therefore be deemed to own beneficially the 61,593 shares held by JAM Investments, LLC

(3) Mr. Penn is the Managing Member of PennantPark Investment Advisers, LLC, and may therefore be deemed to own beneficially the 213,831 shares held by PennantPark Investment Advisers, LLC.

(4) Sole Voting Power

\* Less than 1 percent.

## Dollar Range of Securities Beneficially Owned by Director, Officers and Portfolio Managers

The following table sets forth the dollar range of our equity securities beneficially owned by each of our directors as of December 31, 2007. Information as to the beneficial ownerships based on information furnished to the company by such persons. We are not part of a “family of investment companies,” as that term is defined in the 1940 Act.

### Directors of PennantPark

#### **Independent directors**

Adam K. Bernstein	\$500,001 - \$1,000,000 <sup>(2)</sup>
Marshall Brozost	\$50,001 - \$100,000
Jeffrey Flug	\$500,001 - \$1,000,000
Samuel L. Katz	\$100,001 - \$500,000

#### **Interested directors**

Arthur H. Penn	Over \$1,000,000 <sup>(3)</sup>
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#### **Executive officers who are not directors**

Aviv Efrat	\$100,001 - \$500,000
Matthew Hardin	None

#### **Portfolio managers**

Geoffrey S. Chang	\$100,001 - \$500,000
Salvatore Giannetti III	\$100,001 - \$500,000
P. Whitridge Williams, Jr.	\$100,001 - \$500,000

(1) Dollar ranges are as follows: None; \$1-\$10,000; \$10,001-\$50,000; \$50,001-\$100,000; \$100,001-\$500,000; \$500,001-\$1,000,000 or over \$1,000,000.

(2) Also reflects holdings of JAM Investments, LLC.

(3) Also reflects holdings of PennantPark Investment Advisers, LLC

**Investment Management Agreement**

PennantPark has entered into the Investment Management Agreement with the Investment Adviser under which the Investment Adviser, subject to the overall supervision of PennantPark Investment's board of directors, manages the day-to-day operations of and provides investment advisory services to, PennantPark. Under the terms of our Investment Management Agreement, PennantPark Investment Advisers:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and
- closes and monitors the investments we make.

PennantPark Investment Advisers' services under our Investment Management Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. The Investment Adviser has 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 would monitor any potential conflicts that may arise upon such a development. For providing these services, the Investment Adviser receives a fee from PennantPark, consisting of two components—a base management fee and an incentive fee (collectively, "Management Fees").

**Investment Advisory Fees**

The base management fee is calculated at an annual rate of 2.00% of our gross assets (net of U.S. Treasury Bills ("average adjusted gross total assets")). Although the base management fee is 2.00% of our average adjusted gross total assets, the Investment Adviser waived a portion of the base management fee such that the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007. The base management fee is 1.75% from October 1, 2007 through March 31, 2008. Our base management fee will be 2.00% after March 31, 2008. For services rendered under our Investment Management Agreement during the period commencing from the closing of the initial public offering through and including September 30, 2007, the base management fee was payable monthly in arrears. For services rendered under our Investment Management Agreement after September 30, 2007, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our average adjusted gross total assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base investment advisory fees for any partial month or quarter are appropriately pro rated. For the three months ended December 31, 2007 and the period January 11, 2007 (inception) to September 30, 2007, the Investment Adviser earned a base management fee, after fee waiver, of \$1.4 million and \$1.9 million, respectively.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, "Pre-Incentive Fee Net Investment Income" means interest income, distribution income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under our Administration Agreement, and any interest expense and distributions paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with pay in kind

interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, will be compared to a Hurdle of 1.75% per quarter (7.00% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our average adjusted gross total assets used to calculate the 2.00% base management fee. We have agreed to pay PennantPark Investment Advisers an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the Hurdle of 1.75%;
- 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the Hurdle but is less than 2.1875% in any calendar quarter (8.75% annualized). We refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the Hurdle but is less than 2.1875%) as the “catch-up.” The “catch-up” is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income as if a Hurdle did not apply if this net investment income exceeds 2.1875% in any calendar quarter; and
- 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to our Investment Adviser (once the Hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Investment Income thereafter is allocated to our Investment Adviser). These calculations are appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory and management agreement, as of the termination date), commencing on December 31, 2007, and will equal 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. However, the incentive fee determined as of December 31, 2007 will be calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation from inception. For the three months ended December 31, 2007 and the period January 11, 2007 (inception) to September 30, 2007, the Investment Adviser earned approximately \$447,000 and zero, respectively, in incentive fees.

### Examples of Quarterly Incentive Fee Calculation

#### Example 1: Income Related Portion of Incentive Fee (\*):

##### Alternative 1

###### Assumptions

Investment income (including interest, distributions, fees, etc.) = 1.25%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income—(base management fee + other expenses)) = 0.55%

Pre-incentive net investment income does not exceed Hurdle; therefore there is no incentive fee.



## Alternative 2

### Assumptions

Investment income (including interest, distributions, fees, etc.) = 2.70%  
Hurdle(1) = 1.75%  
Base management fee(2) = 0.50%  
Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%  
Pre-Incentive Fee Net Investment Income  
(investment income—(base management fee + other expenses)) = 2.00%

Incentive fee = 20% x Pre-Incentive Fee Net Investment Income, subject to “catch-up”  
= 2.00% - 1.75%  
= 0.25%  
= 100% x 0.25%  
= 0.25%

## Alternative 3

### Assumptions

Investment income (including interest, distributions, fees, etc.) = 3.00%  
Hurdle(1) = 1.75%  
Base management fee(2) = 0.50%  
Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%  
Pre-Incentive Fee Net Investment Income  
(investment income—(base management fee + other expenses)) = 2.30%  
Incentive fee = 20% x Pre-Incentive Fee Net Investment Income, subject to “catch-up”  
Incentive fee = 100% x “catch-up” + (20% x (Pre-Incentive Fee Net Investment Income – 2.1875%))  
Catch-up = 2.1875% - 1.75%  
= 0.4375%  
= (100% x 0.4375%) + (20% x (2.3% - 2.1875%))  
= 0.4375% + (20% x 0.1125%)  
= 0.4375% + 0.0225%  
= 0.46%

## Example 2: Capital Gains Portion of Incentive Fee:

### Assumptions

Year 1 = no net realized capital gains or losses

Year 2 = 6% net realized capital gains and 1% realized capital losses and unrealized capital depreciation Capital gain incentive fee = 20% x (realized capital gains for year computed net of all realized capital losses and unrealized capital depreciation at year end)

## Management

Year 1 incentive fee	= 20% x (0)
	= 0
	= no incentive fee
Year 2 incentive fee	= 20% x (6% - 1%)
	= 20% x 5%
	= 1%

(\*) The hypothetical amount of Pre-Incentive Fee Net Investment Income shown is based on a percentage of total net assets.

- (1) Represents 7.0% annualized Hurdle.
- (2) Represents 2.0% annualized base management fee. Although the management fee will be 2.00% of our average adjusted gross total assets, the Investment Adviser has agreed to waive a portion of the base management fee such that the base management fee will equal 1.50% from the consummation of the initial public offering through September 30, 2007, 1.75% from October 1, 2007 through March 31, 2008, and 2.00% thereafter.
- (3) Excludes organizational and offering expenses.

## Duration and Termination

The Investment Management Agreement was approved by our board of directors, including a majority of our directors who are not interested persons of PennantPark, on February 13, 2007. Unless terminated earlier as described below, our Investment Management Agreement will continue in effect for a period of two years from its execution date through April 17, 2009. It will remain in effect from year to year thereafter if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Management Agreement will automatically terminate in the event of its assignment. The Investment Management Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other. See "Risk Factors-Risks relating to our business and structure—We are dependent upon PennantPark Investment Advisers' key personnel for our future success, and if we are unable to hire and retain qualified personnel or if we lose any member of our management team, our ability to achieve our investment objectives could be significantly harmed."

## Indemnification

Our Investment Management Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, PennantPark Investment Advisers and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from PennantPark for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of PennantPark Investment Advisers' services under each respective agreement or otherwise as an Investment Adviser of PennantPark.

## Organization of the Investment Adviser

PennantPark Investment Advisers is a registered Investment Adviser under the Advisers Act of 1940. The principal executive offices of PennantPark Investment Advisers are located at 590 Madison Avenue, 15<sup>th</sup> Floor, New York, NY 10022.

## **Administration Agreement**

Pursuant to the Administration Agreement, the Administrator furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Under our Administration Agreement, the Administrator performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Administrator assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under our Administration Agreement are equal to an amount based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the cost of compensation and related expenses of our Chief Compliance Officer and Chief Financial Officer and their respective staffs. Under our Administration Agreement, the Administrator provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. To the extent that our Administrator outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to the Administrator. For the three months ended December 31, 2007 and the period January 11, 2007 (inception) to September 30, 2007, the Investment Adviser was reimbursed approximately \$594,000 and \$490,000, respectively, from the Company, including expenses it incurred on behalf of the Administrator for the services described above.

## **Indemnification**

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, PennantPark Investment Administration and its officers, manager, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from PennantPark for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of PennantPark Investment Administration's services under our Administration Agreement or otherwise as Administrator for PennantPark.

## **License Agreement**

We have entered into the License Agreement with PennantPark Investment Advisers pursuant to which PennantPark Investment Advisers has granted us a royalty-free, non-exclusive license to use the name "PennantPark." Under this agreement, we have a right to use the PennantPark name, for so long as PennantPark Investment Advisers or one of its affiliates remains our Investment Adviser. Other than with respect to this limited license, we have no legal right to the "PennantPark" name.

## DETERMINATION OF NET ASSET VALUE

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

As a business development company, we generally invest in illiquid securities including debt and equity investments of middle-market companies. 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 an independent pricing service or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. 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 purchased within 60 days of maturity will be valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent third party valuation firms, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs in connection with one of our portfolio companies, our board 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 many 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 are readily available but believed not to reflect the fair value of an investment, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- Our board of directors also engages one or more independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but believed not to reflect the fair value of an investment. The independent valuation firm reviews management's preliminary valuations and its own independent assessment;
- The audit committee of our board of directors reviews the preliminary valuations of our 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
- 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.

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

Determination of fair values involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

### **Determinations In Connection With Offerings**

In connection with each offering of shares of our common stock, our board of directors or a committee thereof will be required to make the determination that we are not selling shares of our common stock at a price below net asset value of our common stock at the time at which the sale is made unless we receive the consent of the majority of our common stockholders to do so, and the board of directors decides that such an offering is in the best interests of our common stockholders. Our board of directors will consider the following factors, among others, in making such determination:

- the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC;
- our management's assessment of whether any change in the net asset value of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recent public filing with the SEC that discloses the net asset value of our common stock and ending two days prior to the date of the sale of our common stock; and
- the magnitude of the difference between the offering price of the shares of our common stock in the proposed offering and management's assessment of any change in the net asset value of our common stock during the period discussed above.

Importantly, this determination will not necessarily require that we calculate the net asset value of our common stock in connection with each offering of shares of our common stock, but instead it will involve the determination by our board of directors or a committee thereof that we are not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or otherwise in violation of the 1940 Act.

To the extent that the above procedures result in even a remote possibility that we may (i) issue shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or (ii) trigger our undertaking to suspend the offering of shares of our common stock pursuant to this prospectus if the net asset value fluctuates by certain amounts in certain circumstances until the prospectus is amended (see Part C —"Undertakings"), the Board of Directors or a committee thereof will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine net asset value within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine net asset value to ensure that such undertaking has not been triggered.

We may, however, subject to the requirements of the 1940 Act, issue rights to acquire our common stock at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our Board of Directors, closely approximates the market value of such securities. If we raise additional funds by issuing more

common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations of the board of directors described in this section, and we will maintain these records with other records that we are required to maintain under the 1940 Act.

## DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash dividend or other distribution, then our stockholders who have not 'opted out' of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

No action is required on the part of registered stockholders to have their cash dividend or other distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying American Stock Transfer and Trust Company, the plan Administrator and our transfer agent and registrar, in writing so that such notice is received by the plan Administrator no later than the record date for distributions to stockholders. The plan Administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends or other distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan Administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends and other distributions in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on NASDAQ on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on NASDAQ or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend or other distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There will be no brokerage charges or other charges to stockholders who participate in the plan. The plan Administrator's fees will be paid by us. If a participant elects by written notice to the plan Administrator to have the plan Administrator sell part or all of the shares held by the plan Administrator in the participant's account and remit the proceeds to the participant, the plan Administrator is authorized to deduct a \$15.00 transaction fee plus a \$.10 per share brokerage commissions from the proceeds.

Stockholders who receive dividends and other distributions in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend or other distribution from us will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a dividend or other distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

Participants may terminate their accounts under the plan by notifying the plan Administrator via its website at [www.amstock.com](http://www.amstock.com), by filling out the transaction request form located at bottom of their statement and sending it to the plan Administrator.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan Administrator by mail at American Stock Transfer and Trust Company, P.O. Box 922, Wall Street Station, New York, New York 10269, or by the Plan Administrator's Interactive Voice Response System at 1-888-777-0324.

## DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

### Capital Stock

On December 31, 2007 our authorized capital stock consisted of 100,000,000 shares of stock, par value \$0.001 per share, all of which was initially designated as common stock. Our common stock is quoted on NASDAQ under the ticker symbol "PNNT". There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

The last reported closing market price of our common stock on March 24, 2008 was \$8.70 per share. As of March 24, 2008, we had 16 stockholders of record.

The following are our outstanding classes of securities as of March 24, 2007:

<u>Title of Class</u>	<u>Amount Authorized</u>	<u>Amount Held by Us or for Our Account</u>	<u>Amount Outstanding</u>
Common Stock, par value \$0.001 per share	100,000,000	—	21,068,772

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

### Common stock

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available herefore. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of PennantPark, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.



## **Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us and our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

## **Provisions of the Maryland General Corporation Law and our Charter and Bylaws**

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

***Classified board of directors***

Our board of directors is divided into three classes of directors serving staggered three-year terms. The initial terms of the first, second and third classes will expire in 2008, 2009 and 2010, respectively. Beginning in 2008, upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

***Election of directors***

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

***Number of directors; vacancies; removal***

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. Our charter provides that, at such time as we have three independent directors and our common stock is registered under the Exchange Act, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, at such time, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

***Action by stockholders***

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting (unless the charter provides for stockholder action by less than unanimous consent, which our charter does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

***Advance notice provisions for stockholder nominations and stockholder proposals***

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

#### ***Calling of special meetings of stockholders***

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

#### ***Approval of extraordinary corporate action; amendment of charter and bylaws***

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The “continuing directors” are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

#### ***No appraisal rights***

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

### ***Control share acquisitions***

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquirer crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests based on our determination that our being subject to the Control Share Acquisition Act does not conflict with the 1940 Act.

### ***Business combinations***

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation’s shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation’s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### ***Conflict with 1940 Act***

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

## DESCRIPTION OF OUR PREFERRED STOCK

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act.

The 1940 Act generally requires, among other things, that (1) immediately after issuance and before any distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets less liabilities not represented by indebtedness, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a business development company. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

For any series of preferred stock that we may issue, our Board of Directors will determine and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, as well as whether such dividends are cumulative or non-cumulative and participating or non-participating;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our board of directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which cumulative dividends, if any, thereon will be cumulative. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock will be quarterly and for any auction rate preferred stock, or ARPS, will be weekly or monthly and subject to extension. With respect to ARPS, we expect the dividend rate to be variable and determined for each dividend period.

## DESCRIPTION OF OUR WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common or preferred stock or a specified principal amount of debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants provided that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such warrants, and our Board of Directors approves such issuance on the basis that the issuance is in the best interests of the Company and its stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants at the time of issuance may not exceed 25% of our outstanding voting securities.



## DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

We may issue subscription rights to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with any subscription rights offering to our stockholders, we may enter into a standby underwriting or other arrangement with one or more underwriters or other persons pursuant to which such underwriters or other persons would purchase any offered securities remaining unsubscribed for after such subscription rights offering. If the Company elects to offer subscription rights to its stockholders at a price equivalent to less than net asset value per share, it will offer rights to purchase common stock representing no more than 33 1/3% of the outstanding common stock of the Company. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the title of such subscription rights;
- the exercise price or a formula for the determination of the exercise price for such subscription rights;
- the number or a formula for the determination of the number of such subscription rights issued to each stockholder;
- the extent to which such subscription rights are transferable;
- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights would commence, and the date on which such rights shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities;
- if applicable, the material terms of any standby underwriting or other purchase arrangement that we may enter into in connection with the subscription rights offering; and
- any other terms of such subscription rights, including terms, procedures and limitations relating to the exchange and exercise of such subscription rights.

### *Exercise of Subscription Rights*

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock or other securities at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby or another report filed with the SEC. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the applicable prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement, we will forward, as soon as practicable, the shares of common stock or other securities purchasable upon such exercise. We may determine to offer any unsubscribed offered securities directly to stockholders, persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, including pursuant to standby underwriting or other arrangements, as set forth in the applicable prospectus supplement.

## DESCRIPTION OF OUR DEBT SECURITIES

We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an “indenture.” An indenture is a contract between us and a financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under “Description of our Debt Securities—Events of Default.” Second, the trustee performs certain administrative duties for us, such as sending interest and principal payments to holders.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. Some of the definitions are repeated in this prospectus, but for the rest you will need to read the indenture. We have filed the form of the indenture with the SEC. See “Description of our Debt Securities—Additional Information” for information on how to obtain a copy of the indenture.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities and whether or not the offering may be reopened for additional securities of that series and on what terms;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued;
- the provision for any sinking fund;
- any restrictive covenants;
- any Events of Default;

- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- any special federal income tax implications, including, if applicable, federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Under the provisions of the 1940 Act, we are permitted, as a business development company, to issue debt only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of debt. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

## **General**

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement (“offered debt securities”) and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities (“underlying debt securities”) may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of, or premium or interest, if any, on, debt securities will include additional amounts if required by the terms of the debt securities.

The indenture limits the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the “indenture securities.” The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See “Description of our Debt Securities—Resignation of Trustee” below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term “indenture securities” means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

### **Conversion and Exchange**

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

### **Issuance of Securities in Registered Form**

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in “certificated” form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will issue debt securities in book-entry only form represented by global securities.

We also will have the option of issuing debt securities in non-registered form as bearer securities if we issue the securities outside the United States to non-U.S. persons. In that case, the prospectus supplement will set forth the mechanics for holding the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities for registered securities of the same series, and for receiving notices. The prospectus supplement will also describe the requirements with respect to our maintenance of offices or agencies outside the United States and the applicable U.S. federal tax law requirements.

### *Book-Entry Holders*

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depositary that will hold them on behalf of financial institutions that participate in the depositary’s book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depositary or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary’s book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

### *Street Name Holders*

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in “street name.” Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor holds a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

### *Legal Holders*

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depository participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

### *Special Considerations for Indirect Holders*

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices,
- whether it imposes fees or charges,
- how it would handle a request for the holders’ consent, if ever required,
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities,
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests, and
- if the debt securities are in book-entry form, how the depository’s rules and procedures will affect these matters.

## Global Securities

As noted above, we expect that we will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depository. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depository for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under “Description of our Debt Securities—Special Situations when a Global Security Will Be Terminated.” As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or with another institution that has an account with the depository. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

### *Special Considerations for Global Securities*

As an indirect holder, an investor’s rights relating to a global security will be governed by the account rules of the investor’s financial institution and of the depository, as well as general laws relating to securities transfers. The depository that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

- an investor cannot cause the debt securities to be registered in his or her name and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below.
- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under “Description of our Debt Securities—Issuance of Securities in Registered Form” above.
- an investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form.
- an investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.
- the depository’s policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor’s interest in a global security. We and the trustee have no responsibility for any aspect of the depository’s actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depository in any way.
- if we redeem less than all the debt securities of a particular series being redeemed, DTC’s practice is to determine by lot the amount to be redeemed from each of its participants holding that series.
- an investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC’s records, to the applicable trustee.

- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds. Your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security.
- financial institutions that participate in the depository’s book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

*Special Situations when a Global Security Will Be Terminated*

In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors under “Description of our Debt Securities—Holders of Registered Debt Securities” above.

The special situations for termination of a global security are as follows:

- if the depository notifies us that it is unwilling, unable or no longer qualified to continue as depository for that global security, and we are unable to appoint another institution to act as depository,
- if we notify the trustee that we wish to terminate that global security, or
- if an event of default has occurred with regard to the debt securities represented by that global security and has not been cured or waived; we discuss defaults later under “Description of our Debt Securities—Events of Default.”

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depository, and not we or the applicable trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

**Payment and Paying Agents**

We will pay interest to the person listed in the applicable trustee’s records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, often about two weeks in advance of the interest due date, is called the “record date.” Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called “accrued interest.”

*Payments on Global Securities*

We will make payments on a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder’s right to those payments will be governed by the rules and practices of the depository and its participants, as described under “Description of our Debt Securities—Global Securities.”

### *Payments on Certificated Securities*

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, New York and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in the City of New York, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

### *Payment When Offices Are Closed*

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

### **Events of Default**

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following:

- we do not pay the principal of, or any premium on, a debt security of the series within five days of its due date.
- we do not pay interest on a debt security of the series within 30 days of its due date.
- we do not deposit any sinking fund payment in respect of debt securities of the series on its due date and we do not cure this default within five days.
- we remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series.
- we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur.
- any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.



### *Remedies if an Event of Default Occurs*

If an Event of Default has occurred and has not been cured or waived, the trustee or the holders of not less than 66.66% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series if the default is cured or waived and certain other conditions are satisfied.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity"). If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

- you must give the trustee written notice that an Event of Default has occurred and remains uncured.
- the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action.
- the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity.
- the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

### *Waiver of Default*

The holders of a majority in principal amount of the relevant series of debt securities may waive a default for all the relevant series of debt securities. If this happens, the default will be treated as if it had not occurred. No one can waive a payment default on a holder's debt security, however, without the holder's approval.

## **Merger or Consolidation**

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

- if we do not survive such transaction or we convey, transfer or lease our properties and assets substantially as an entirety, the acquiring company must be a corporation, limited liability company, partnership or trust, or other corporate form, organized under the laws of any state of the United States or the District of Columbia, any country comprising the European Union, the United Kingdom or Japan and such company must agree to be legally responsible for our debt securities, and, if not already subject to the jurisdiction of any state of the United States or the District of Columbia, the new company must submit to such jurisdiction for all purposes with respect to the debt securities and appoint an agent for service of process;
- alternatively, we must be the surviving company;
- immediately after the transaction no event of default will exist;
- we must deliver certain certificates and documents to the trustee; and
- we must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

## **Modification or Waiver**

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

### *Changes Requiring Your Approval*

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on a debt security;
- reduce any amounts due on a debt security;
- reduce the amount of principal payable upon acceleration of the maturity of a security following a default;
- at any time after a change of control has occurred, reduce the premium payable upon a change of control;
- change the place or currency of payment on a debt security (except as otherwise described in the prospectus or prospectus supplement);
- impair your right to sue for payment;
- adversely affect any right to convert or exchange a debt security in accordance with its terms;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;
- modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and
- change any obligation we have to pay additional amounts.

### *Changes Not Requiring Approval*

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

### *Changes Requiring Majority Approval*

Any other change to the indenture and the debt securities would require the following approval:

- if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series.
- if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under “Description of our Debt Securities—Changes Requiring Your Approval.”

### *Further Details Concerning Voting*

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default.
- for debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement.
- for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under “Description of our Debt Securities—Defeasance—Full Defeasance.”

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.**

## Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

### *Covenant Defeasance*

Under current U.S. federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called “covenant defeasance.” In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions described under “Description of our Debt Securities—Indenture Provisions—Subordination” below. In order to achieve covenant defeasance, we must do the following:

- If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.
- We may be required to deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act of 1940, as amended, and a legal opinion and officers’ certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

### *Full Defeasance*

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called “full defeasance”) if we put in place the following other arrangements for you to be repaid:

- If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.
- We may be required to deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an Internal Revenue Service ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit.

- We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the Investment Company Act of 1940, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under "Description of our Debt Securities—Indenture Provisions—Subordination."

### **Form, Exchange and Transfer of Certificated Registered Securities**

If registered debt securities cease to be issued in book-entry form, they will be issued:

- only in fully registered certificated form,
- without interest coupons, and
- unless we indicate otherwise in the prospectus supplement, in denominations of \$1,000 and amounts that are multiples of \$1,000.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in the prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depository will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

### **Resignation of Trustee**

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

## **Indenture Provisions—Subordination**

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness, but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution must be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

- our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities, and
- renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness outstanding as of a recent date.

## **The Trustee under the Indenture**

We intend to use Bank of New York Mellon to serve as the trustee under the indenture.

## **Certain Considerations Relating to Foreign Currencies**

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

## REGULATION

We are a business development company under the 1940 Act and intend to elect to be treated as a RIC under Subchapter M of the Code. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an “underwriter” as that term is defined in the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations. However, we may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investment. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. None of these policies is fundamental and may be changed without stockholder approval.

### Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company’s total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

(a) is organized under the laws of, and has its principal place of business in, the United States;

(b) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

(c) does not have any class of securities listed on a national securities exchange.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

### **Managerial Assistance to Portfolio Companies**

In addition, a business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

### **Temporary Investments**

Pending investment in other types of “qualifying assets,” as described above, our investments may consist of cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our Investment Adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

### **Senior Securities**

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors—Risks relating to our business and structure—Regulations governing our operation as a business development company will affect our ability to, and the way in which we, raise additional capital.”



## **Code of Ethics**

We and PennantPark Investment Advisers have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, the code of ethics is attached as an exhibit to the registration statement of which this prospectus is a part, and is available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following Email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

## **Proxy Voting Policies and Procedures**

We have delegated our proxy voting responsibility to our Investment Adviser. The Proxy Voting Policies and Procedures of our Investment Adviser are set forth below. The guidelines are reviewed periodically by our Investment Adviser and our non-interested directors, and, accordingly, are subject to change. For purposes of these Proxy Voting Policies and Procedures described below, "we" "our" and "us" refers to our Investment Adviser.

### *Introduction*

As an Investment Adviser registered under the Advisers Act, we have a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

### *Proxy Policies*

We vote proxies relating to our portfolio securities in what we perceive to be the best interest of our clients' stockholders. We review on a case-by-case basis each proposal submitted to a shareholder vote to determine its impact on the portfolio securities held by our clients. Although we will generally vote against proposals that may have a negative impact on our clients' portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by the senior officers who are responsible for monitoring each of clients' investments. To ensure that our vote is not the product of a conflict of interest, we require that: (1) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

### *Proxy Voting Records*

You may obtain information about how we voted proxies by making a written request for proxy voting information to: Aviv Efrat, Chief Financial Officer and Treasurer, 590 Madison Avenue, 15<sup>th</sup> Floor, New York, New York 10022.

## **Privacy Principles**

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information

we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party Administrator).

We restrict access to non-public personal information about our stockholders to employees of our Investment Adviser and its affiliates with a legitimate business need for the information. We will maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

#### **Other**

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors who are not interested persons and, in some cases, prior approval by the SEC.

We will be periodically examined by the SEC for compliance with the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to PennantPark or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and PennantPark Investment Advisers will each be required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and designate a chief compliance officer to be responsible for administering the policies and procedures.

#### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 imposes a wide variety of new regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us. For example:

- pursuant to Rule 13a-14 of the Exchange Act, our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 of Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 of the Exchange Act, our management must prepare an annual report regarding its assessment of our internal control over financial reporting, which must be audited by our independent registered public accounting firm; and
- pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the 1934 Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated there under. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance with that act.

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## BROKERAGE ALLOCATIONS AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our board of directors, the Investment Adviser is primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. The Investment Adviser does not expect to execute transactions through any particular broker or dealer, but seeks to obtain the best net results for PennantPark, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the brokerage firm and the firm's risk and skill in positioning blocks of securities. While the Investment Adviser generally seeks reasonably competitive trade execution costs, PennantPark will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the Investment Adviser may select a broker based partly upon brokerage or research services provided to the Investment Adviser and PennantPark and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the Investment Adviser determines in good faith that such commission is reasonable in relation to the services provided.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A “U.S. stockholder” generally is a beneficial owner of shares of our common stock that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia; or
- a trust or an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A “Non-U.S. stockholder” is a beneficial owner of shares of our common stock that is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult its tax advisors with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### **Taxation in Connection with Holding Securities other than our Common Stock**

We intend to describe in any prospectus supplement related to the offering of preferred stock, debt securities, warrants or rights offerings to purchase our common stock, the U.S. federal income tax considerations applicable to such securities as will be sold by us pursuant to that supplement, including the taxation of any debt securities that will be sold at an original issue discount or acquired with market discount or amortizable bond premium and the tax treatment of sales, exchanges or retirements of our debt securities. In addition, we may describe in the applicable prospectus supplement the U.S. federal income tax considerations applicable to holders of our debt securities who are not “U.S. persons.”

## **Election to be Taxed as a RIC**

We have elected to be treated, and intend to qualify annually, as a RIC under Subchapter M of the Code. For a short period ending April 30, 2007, we were not a RIC and were subject to corporate-level income tax. To maintain RIC tax benefits, we must, among other requirements, meet certain source-of-income and asset diversification requirements (as described below). We also must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we currently intend to distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

In order to qualify as a RIC for federal income tax purposes, we must:

- qualify to be treated as a business development company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from distributions, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships or other income derived with respect to our business of investing in such stock or securities (the “90% Income Test”); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
  - no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in certain qualified publicly traded partnerships (the “Diversification Tests”).

## **Taxation as a RIC**

If we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement;

then we will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) we distribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income realized, but not distributed or taxed, in preceding years (the “Excise Tax Avoidance Requirement”). We currently intend to make sufficient distributions each taxable year to satisfy the Excise Tax Avoidance Requirement.

In order to qualify as a RIC for federal income tax purposes, we must, among other things:

- qualify to be treated as a business development company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from distributions, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships or other income derived with respect to our business of investing in such stock or securities (the “90% Income Test”); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
  - no more than 25% of the value of our assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in certain qualified publicly traded partnerships (the “Diversification Tests”).

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with pay in kind interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain “asset coverage” tests are met. See “Regulation—Senior securities.” Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

If we fail to satisfy the Annual Distribution Requirement or fail to qualify as a RIC in any taxable year, we will be subject to tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. In that case, all of our income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated. See “Election to be taxed as a RIC” above.

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

## **Failure to Qualify as a RIC**

If we are unable to maintain our status as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would generally be taxable to our stockholders as ordinary distribution income eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the distributions received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

## **Taxation of U.S. Stockholders**

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions generally will be eligible for a maximum tax rate of 15%, if certain holding period requirements are satisfied. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the 15% maximum rate. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as "capital gain distributions" will be taxable to a U.S. stockholder as long-term capital gains at a maximum rate of 15% in the case of individuals, trusts or estates, regardless of the U.S. stockholder's holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

Although we currently intend to distribute any long-term capital gains at least annually, we may in the future decide to retain some or all of our long-term capital gains, but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its common stock. Since we expect to pay tax on any retained capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for federal income tax. A stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to use the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain distributions paid for that year, we may, under certain circumstances, elect to treat a distribution that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the distribution in the

taxable year in which the distribution is made. However, any distribution declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the distribution was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it represents a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. Any gain arising from such sale or disposition generally will be treated as capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain distributions received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of dividends or other distributions or otherwise) within 30 days before or after the disposition.

In general, individual U.S. stockholders currently are subject to a maximum federal income tax rate of 15% on their net capital gain, i.e., the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carryback such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the Internal Revenue Service (including the amount of distributions, if any, eligible for the 15% maximum rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation. Distributions distributed by us generally will not be eligible for the distributions-received deduction or the preferential rate applicable to qualifying distributions.

We may be required to withhold federal income tax ("backup withholding") currently at a rate of 28% from all taxable distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the IRS notifies us that such stockholder has failed to properly report certain interest and distribution income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability and may entitle such stockholder to a refund, provided that proper information is timely provided to the IRS.

#### **Taxation of Non-U.S. Stockholders**

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our common stock.



Distributions of our “investment company taxable income” to Non-U.S. stockholders (including interest income and net short-term capital gain, which generally would be free of withholding if paid to Non-U.S. stockholders directly) are expected to be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States, in which case the distributions will be subject to federal income tax at the rates applicable to U.S. persons. In that case, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisors.

Actual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States.

If we distribute our net capital gains in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the stockholder’s allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on distributions unless the Non-U.S. stockholder provides us or the distribution paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. persons should consult their own tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

## PLAN OF DISTRIBUTION

We may sell the securities in any of three ways (or in any combination): (a) through underwriters or dealers; (b) directly to a limited number of purchasers or to a single purchaser; or (c) through agents. The securities may be sold “at-the-market” to or through a market maker or into an existing trading market for the securities, on an exchange or otherwise. The prospectus supplement will set forth the terms of the offering of such securities, including:

- the name or names of any underwriters, dealers or agents and the amounts of securities underwritten or purchased by each of them;
- the offering price of the securities and the proceeds to us and any discounts, commissions or concessions allowed or reallocated or paid to dealers; and
- any securities exchanges on which the securities may be listed.

Any offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

If underwriters are used in the sale of any securities, the securities will be acquired by the underwriters for their own accounts and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters’ obligations to purchase the securities will be subject to certain conditions precedent. The underwriters will be obligated to purchase all of the securities if they purchase any of the securities.

In compliance with the guidelines of FINRA, the maximum compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

We may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth any commissions we pay for soliciting these contracts.

Agents and underwriters may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents and underwriters may be customers of, engage in transactions with, or perform services for us in the ordinary course of business.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open

borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment). We or one of our affiliates may loan or pledge securities to a financial institution or other third party that in turn may sell the securities using this prospectus. Such financial institution or third party may transfer its short position to investors in our securities or in connection with a simultaneous offering of other securities offered by this prospectus or otherwise.

## **CUSTODIAN, TRANSFER AGENT AND TRUSTEE**

PFPC, Inc., a subsidiary of The PNC Financial Services Group, Inc., provides administrative and accounting services to us under a sub-administration and accounting services agreement. PFPC Trust Company, a subsidiary of The PNC Financial Services Group, Inc., provides custodian services to us pursuant to a custodian services agreement. American Stock Transfer & Trust Company acts as our transfer agent, distribution paying agent and registrar. The principal business address of American Stock Transfer & Trust Company is P.O. Box 922, Wall Street Station, New York, New York 10269, telephone number: (800) 937-5449. Bank of New York Mellon may also serve as trustee for offerings of our debt securities.

### **LEGAL MATTERS**

Certain legal matters regarding the securities offered by this prospectus will be passed upon for PennantPark by Dechert LLP, Washington, D.C.

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

KPMG LLP, our independent registered public accounting firm, is located at 345 Park Avenue, New York, New York 10154.

With respect to the unaudited interim financial information as of December 31, 2007, and for the three-month period then ended, included herein, KPMG LLP has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The accountants are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited interim financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by the accountants within the meaning of Sections 7 and 11 of the Securities Act of 1933.

### **PRIVACY PRINCIPLES**

We are committed to maintaining the privacy of securityholders and to safeguarding our non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any nonpublic personal information relating to our securityholders, although certain nonpublic personal information of our stockholders may become available to us. We do not disclose any nonpublic personal information about our securityholders or former securityholders to anyone, except as permitted by law or as is necessary in order to service securityholders accounts (for example, to a transfer agent or third party administrator).

We restrict access to nonpublic personal information about our securityholders to our Investment Adviser's employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the nonpublic personal information of our securityholders.

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**PennantPark Investment Corporation**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
PennantPark Investment Corporation

We have audited the accompanying consolidated statement of assets and liabilities of PennantPark Investment Corporation (the "Company"), including the schedule of investments, as of September 30, 2007 and the related consolidated statements of operations, changes in net assets, and cash flows for the period from January 11, 2007 (inception) through September 30, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PennantPark Investment Corporation as of September 30, 2007, and the results of its operations, changes in its net assets and its cash flows for the period from January 11, 2007 (inception) through September 30, 2007 in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

New York, New York  
December 12, 2007

**PENNANTPARK INVESTMENT CORPORATION**  
**CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

	<u>September 30,</u> <u>2007</u>
<b>Assets</b>	
Investments, at fair value (cost—\$314,881,870) <sup>1</sup>	\$ 291,016,608
Cash equivalents (cost—\$258,016,351)	257,959,635
Interest receivable	4,517,850
Prepaid expenses and other assets	<u>1,513,583</u>
<b>Total assets</b>	<u>555,007,676</u>
<b>Liabilities</b>	
Payable for cash equivalents purchased	252,759,931
Payable for investments purchased	16,583,921
Unfunded investments	3,989,948
Credit facility payable	10,000,000
Interest payable	170,989
Accrued other expenses	<u>1,109,793</u>
<b>Total liabilities</b>	<u>284,614,582</u>
<b>Net Assets</b>	
Common stock, par value \$.001 per share, 100,000,000 shares authorized and 21,068,772 shares issued and outstanding	21,069
Paid-in capital in excess of par	294,586,604
Distributions in excess of net investment income	(196,769)
Accumulated net realized loss	(95,832)
Net unrealized depreciation on investments and cash equivalents	<u>(23,921,978)</u>
<b>Total net assets</b>	<u>\$ 270,393,094</u>
<b>Total liabilities and net assets</b>	<u>\$ 555,007,676</u>
<b>Net asset value per share</b>	<u>\$ 12.83</u>

1 None of our portfolio companies is controlled by, or affiliated with, PennantPark Investment Corporation as defined by the Investment Company Act of 1940, as amended.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

	<b>Period from January 11, 2007 (inception) through September 30, 2007</b>
<b>Investment Income:</b>	
Interest	\$ 13,107,341
<b>Total investment income</b>	<u>13,107,341</u>
<b>Expenses:</b>	
Management fees	2,565,085
Interest and other credit facility expenses	1,835,816
Administrative services expenses	778,587
Professional fees	420,186
Directors' fees	211,128
Organizational expenses	207,126
Insurance	162,387
Other general and administrative expenses	157,923
<b>Expenses before management fee waiver and income tax</b>	<u>6,338,238</u>
Management fee waiver	(641,273)
Income tax	105,880
<b>Net expenses</b>	<u>5,802,845</u>
<b>Net investment income</b>	<u>7,304,496</u>
<b>Realized and unrealized loss on investments and cash equivalents:</b>	
Net realized loss on investments and cash equivalents	(81,769)
Change in net unrealized depreciation on investments and cash equivalents	(23,921,978)
<b>Net realized and unrealized loss from investments and cash equivalents</b>	<u>(24,003,747)</u>
<b>Net decrease in net assets resulting from operations</b>	<u>\$ (16,699,251)</u>
<b>Earnings per common share (See note 6)</b>	<u>\$ (0.80)</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**PENNANTPARK INVESTMENT CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

	<b>Period from January 11, 2007 (inception) through September 30, 2007</b>
<b>Decrease in net assets from operations:</b>	
Net investment income	\$ 7,304,496
Net realized loss on investments and cash equivalents	(81,769)
Net change in unrealized depreciation on investments and cash equivalents	(23,921,978)
<b>Net decrease in net assets resulting from operations</b>	<u>(16,699,251)</u>
<b>Dividends and distributions:</b>	
Dividends from net investment income	(7,545,458)
Return of capital	(28,356)
<b>Total dividends and distributions</b>	<u>(7,573,814)</u>
<b>Capital share transactions:</b>	
Issuance of shares of common stock	315,375,000
Offering costs related to public share offerings	(21,309,375)
Reinvestment of dividends (43,772 shares of common stock)	600,534
<b>Net increase in net assets resulting from capital share transactions</b>	<u>294,666,159</u>
<b>Total increase in net assets</b>	<u>270,393,094</u>
<b>Net Assets:</b>	
Beginning of period	—
End of period	<u>\$ 270,393,094</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Period from January 11, 2007 (inception) through September 30, 2007</b>
<b>Cash flows from operating activities:</b>	
Net decrease in net assets resulting from operations	\$ (16,699,251)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used by operating activities:	
Change in net unrealized depreciation on investments and cash equivalents	23,921,978
Net realized loss on investments and cash equivalents	81,769
Net accretion of discount and amortization of premium	(15,875)
Purchase of investments	(414,640,441)
Proceeds from disposition of investments	99,635,961
Increase in interest receivable	(4,517,850)
Increase in prepaid expenses and other assets	(252,287)
Increase in payables for cash equivalents purchased	252,759,931
Increase in payables for investments purchased	16,583,921
Increase in unfunded investments	3,989,948
Increase in accrued expenses	1,280,782
Net cash used by operating activities	(37,871,414)
<b>Cash flows from financing activities:</b>	
Issuance of shares of common stock	315,375,000
Offering costs	(21,309,375)
Capitalized borrowing costs	(1,261,296)
Borrowings under credit facility (See note 12)	271,913,786
Repayments under credit facility (See note 12)	(261,913,786)
Dividends and distributions to stockholders (net of dividends reinvested)	(6,973,280)
Net cash provided by financing activities	295,831,049
<b>Net increase in cash and cash equivalents</b>	<b>257,959,635</b>
<b>Cash equivalents, beginning of period</b>	<b>—</b>
<b>Cash equivalents, end of period</b>	<b>\$ 257,959,635</b>
<b>Supplemental disclosure of cash flow information:</b>	
Interest paid during the period January 11, 2007 (inception) through September 30, 2007	\$ 1,598,055
Non-cash financing activities consist of the reinvestment of dividends	\$ 600,534
Payment-in-kind interest	\$ 668,268

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>Subordinated Debt / Corporate Notes—21.2%</b>							
ADVANSTAR, INC.	11/30/2015	OTHER MEDIA	12.20%*	L+700	\$ 14,580,690	\$ 14,580,690	\$ 14,580,690
AFFINION GROUP HOLDINGS, INC.	03/01/2012	CONSUMER PRODUCTS	11.68%*	L+625	18,500,000	18,106,103	17,760,000
PERFORMANCE HOLDINGS, INC.	07/02/2014	LEISURE, AMUSEMENT, MOTION PICTURES & ENTERTAINMENT	14.25%*	—	3,837,578	3,592,573	3,837,578
REALOGY CORP. <sup>(5)</sup>	04/15/2015	BUILDINGS & REAL ESTATE	12.38%	—	28,000,000	26,117,780	21,140,000
<b>Total Subordinated Debt / Corporate Notes</b>					<u>64,918,268</u>	<u>62,397,146</u>	<u>57,318,268</u>
<b>Shares</b>							
<b>common equity**—2.6%</b>							
VSS-AHC HOLDINGS, L.L.C.	—	OTHER MEDIA	—	—	3,000	3,000,000	3,269,685
PERFORMANCE HOLDINGS, INC.	—	LEISURE, AMUSEMENT, MOTION PICTURES & ENTERTAINMENT	—	—	37,500	3,750,000	3,750,000
<b>Total Common Equity</b>					<u>40,500</u>	<u>6,750,000</u>	<u>7,019,685</u>
<b>Par</b>							
<b>Second Lien secured Debt—25.0%</b>							
PERFORMANCE, INC.	07/02/2014	LEISURE, AMUSEMENT, MOTION PICTURES & ENTERTAINMENT	11.11%	L+575	8,750,000	8,750,000	8,750,000
QUESTEX MEDIA GROUP, INC.	11/04/2014	OTHER MEDIA	12.08%	L+650	10,000,000	10,000,000	9,800,000
SAINT ACQUISITION CORP. <sup>(5)</sup>	05/15/2015	TRANSPORTATION	13.31%	L+775	10,000,000	9,932,321	6,800,000
SAINT ACQUISITION CORP. <sup>(5)</sup>	05/15/2017	TRANSPORTATION	12.50%	—	19,000,000	16,198,167	12,730,000
SPECIALIZED TECHNOLOGY RESOURCES, INC.	12/15// 2014	CHEMICAL, PLASTICS & RUBBER	12.13%	L+700	17,500,000	17,493,750	17,237,500
TRANSFIRST HOLDINGS, INC.	06/15/2015	BUSINESS SERVICES	11.30%*	L+600	13,000,000	12,886,250	12,431,250
<b>Total second Lien secured Debt</b>					<u>78,250,000</u>	<u>75,260,488</u>	<u>67,748,750</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>First Lien secured Debt—58.8%</b>							
BERRY PLASTICS GROUP, INC.	04/03/2015	CONTAINERS, PACKAGING & GLASS	% 7.34	L+200	7,462,500	7,462,500	7,274,602
BURLINGTON COAT FACTORY WAREHOUSE CORP.	05/28/2013	RETAIL STORE	7.76%	L+225	7,896,473	7,887,537	7,571,975
CHARTER COMMUNICATIONS OPERATING, L.L.C.	03/06/2014	CABLE TELEVISION	7.13%	L+200	15,000,000	14,992,740	14,468,310
COHR HOLDINGS, INC.	01/31/2013	HEALTH CARE, EDUCATION & CHILDCARE	% 8.04	L+250	2,985,000	2,985,000	2,388,000
FR BRAND ACQUISITION CORP.	02/07/2014	ENERGY / UTILITIES	7.53%	L+225	1,990,000	1,990,000	1,887,183
GATEHOUSE MEDIA OPERATING, INC.	08/28/2014	MEDIA	7.47%	L+200	7,000,000	7,000,000	6,405,000
GENERAL NUTRITION CENTERS, INC.	09/16/2013	RETAIL STORE	7.61%	L+225	6,483,750	6,487,788	6,147,405
GREATWIDE LOGISTICS SERVICES, INC.	12/19/2013	CARGO TRANSPORT	8.70%	L+350	6,947,500	6,947,500	6,079,062
HANLEY-WOOD, L.L.C.	03/08/2014	OTHER MEDIA	7.60%	L+225	9,000,000	9,000,000	7,845,003
HAWKER BEECHCRAFT, INC.	03/28/2014	AEROSPACE/DEFENSE	7.21%	L+200	1,990,780	1,990,780	1,930,226
HEALTH MANAGEMENT ASSOCIATES, INC.	02/28/2014	HEALTH CARE, EDUCATION & CHILDCARE	% 6.95	L+175	9,950,000	9,950,000	9,441,615
HUGHES NETWORK SYSTEMS, L.L.C.	04/15/2014	TELECOMMUNICATIONS	8.06%	L+250	5,000,000	5,000,000	4,625,000
JACUZZI BRANDS CORP.	02/07/2014	HOME & OFFICE FURNISHINGS, HOUSEWARES & DURABLES	% 7.44	L+225	9,963,514	9,963,514	8,947,235
LEVEL 3 FINANCING, INC.	03/13/2014	TELECOMMUNICATIONS	7.61%	L+225	2,000,000	2,000,000	1,939,642
LEVLAD, L.L.C.	03/08/2014	CONSUMER PRODUCTS	7.58%	L+225	4,842,920	4,842,920	3,357,757
LONGVIEW POWER, L.L.C.	02/28/2014	UTILITIES	7.56%	L+225	2,020,000	2,020,000	1,939,200
LONGVIEW POWER, L.L.C. <sup>(4)</sup>	02/28/2014	UTILITIES	—	—	980,000	980,000	940,800
MACH GEN, L.L.C.	02/22/2014	UTILITIES	7.34%	L+200	3,972,813	3,971,545	3,845,683
MATTRESS HOLDING CORP.	01/18/2014	HOME & OFFICE FURNISHINGS, HOUSEWARES & DURABLES	% 7.61	L+225	3,990,000	3,990,000	3,740,625
MCJUNKIN CORP.	01/31/2014	OIL & GAS	7.45%	L+225	982,525	982,525	965,331

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>First Lien secured Debt—(continued)</b>							
MITCHELL INTERNATIONAL, INC.	03/28/2014	BUSINESS SERVICES	7.20%	L+200	\$ 3,980,000	\$ 3,980,000	\$ 3,835,725
NATIONAL BEDDING CO., L.L.C.	08/31/2011	HOME & OFFICE FURNISHINGS, HOUSEWARES & DURABLES	7.43%	L+200	6,965,000	6,971,653	6,668,988
PENTON MEDIA, INC.	02/01/2013	OTHER MEDIA	7.59%	L+225	4,975,000	4,975,000	4,716,922
PHILOSOPHY, INC.	03/16/2014	CONSUMER PRODUCTS	7.36%	L+200	1,493,333	1,493,333	1,344,000
PROQUEST CSA, L.L.C.	02/09/2014	EDUCATION	8.20%	L+300	955,833	955,833	936,716
QUESTEX MEDIA GROUP, INC.	05/04/2014	OTHER MEDIA	8.56%	L+300	4,974,167	4,974,167	4,839,742
READER'S DIGEST ASSOCIATION, INC.	03/02/2014	PRINTING & PUBLISHING	7.43%	L+200	995,006	995,006	940,281
REXNORD, L.L.C.	07/19/2013	MANUFACTURING/BASIC INDUSTRIES	7.64%	L+225	4,937,500	4,937,500	4,835,664
SITEL, L.L.C.	01/30/2014	BUSINESS SERVICES	7.78%	L+250	2,867,302	2,867,302	2,680,927
UNIVISION COMMUNICATIONS, INC.	09/29/2014	BROADCASTING & ENTERTAINMENT	7.57%	L+225	14,093,960	14,093,960	13,389,262
UNIVISION COMMUNICATIONS, INC. <sup>(4)</sup>	09/29/2014	BROADCASTING & ENTERTAINMENT	—	—	906,040	906,040	860,738
VALASSIS COMMUNICATIONS, INC.	03/02/2014	PRINTING & PUBLISHING	6.95%	L+175	7,061,899	7,061,899	6,549,911
VALASSIS COMMUNICATIONS, INC. <sup>(4)</sup>	03/02/2014	PRINTING & PUBLISHING	—	—	2,103,908	2,103,908	1,951,375
WESTERN REFINING, INC.	05/30/2014	OIL & GAS	6.88%	L+175	3,714,286	3,714,286	3,640,000
<b>Total first Lien secured Debt</b>					<u>170,481,009</u>	<u>170,474,236</u>	<u>158,929,905</u>
<b>Total investments – 107.6%</b>						<u>\$ 314,881,870</u>	<u>\$ 291,016,608</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>Cash equivalents—95.4%</b>							
U.S. TREASURY BILL	12/27/2007		3.64%	—	\$255,000,000	\$252,759,931	\$ 252,703,215
MONEY MARKET—MUTUAL FUNDS			—	—	5,256,420	5,256,420	5,256,420
<b>Total cash equivalents</b>					<u>260,256,420</u>	<u>258,016,351</u>	<u>257,959,635</u>
<b>Total investments and cash equivalents</b>						<u>\$572,898,221</u>	<u>\$ 548,976,243</u>
<b>Liabilities in excess of other assets—(103.0%)</b>							<u>(278,583,149)</u>
<b>Net assets—100.0%</b>							<u>\$ 270,393,094</u>

(1) We do not “control” and are not an “affiliate” of any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would be presumed to “control” a portfolio company if we owned 25% or more of its voting securities and would be deemed to be an “affiliate” of a portfolio company if we owned 5% or more of its voting securities.

(2) Valued based on our accounting policy. (See note 2)

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

(4) Represents purchases of securities with delayed draws. These securities do not have a basis point spread above index.

(5) Security is exempt from registration under Rule 144A of the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

\* Coupon payable in cash or payment in kind.

\*\* Non-income producing.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

**PENNANTPARK INVESTMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**1. ORGANIZATION**

PennantPark Investment Corporation (“PennantPark” or “Company”) was organized as a Maryland corporation on January 11, 2007. PennantPark Investment’s objective is to generate both current income and capital appreciation through debt and equity investments. PennantPark Investment invests primarily in U.S. middle-market companies in the form of mezzanine debt, first lien secured debt and equity investments. As of September 30, 2007 PennantPark Investment had sold and issued 21,068,772 shares of its common stock, with gross proceeds of \$316.0 million. Before the completion of its initial public offering on April 24, 2007, PennantPark Investment had limited operations other than the sale and issuance of 80,000 shares of common stock at an aggregate purchase price of \$1.2 million to PennantPark Investment Advisers, LLC (the “Investment Adviser” or “PennantPark Investment Advisers”) and the purchase of first lien secured debt.

On April 24, 2007 PennantPark Investment closed its initial public offering, selling 20,000,000 shares of its common stock, resulting in net proceeds of approximately \$279.6 million. Also on April 24, PennantPark Investment closed a private placement of common stock pursuant to Regulation D under the Securities Act of 1933. This private placement of 320,000 shares was made to officers, directors, the Investment Adviser and managers of the Investment Adviser, for \$15 per share, resulting in net proceeds of approximately \$4.8 million. On May 21, the underwriters of the initial public offering exercised their over-allotment option to them under the Underwriting Agreement. The Underwriters elected to purchase 625,000 shares of our common stock, resulting in net proceeds of \$8.8 million.

The consolidated financial statements include the accounts of PennantPark Investment and its wholly owned special purpose subsidiary, Pennant SPV Company, LLC (“Pennant SPV”) a Delaware corporation. On April 24, 2007, Pennant SPV transferred all of its assets to PennantPark Investment.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reported period. Actual results could differ from these estimates.

The financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X under the Exchange Act, we are providing a Statement of Changes in Net Assets in lieu of a Statement of Changes in Stockholders’ Equity.

The significant accounting policies consistently followed by PennantPark Investment are:

- (a) Security transactions are recorded on a trade-date basis. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Subordinated debt, first lien secured debt and other debt securities with maturities greater than 60 days generally are valued by an independent pricing service or at the bid prices from at least two broker/dealers (if available, otherwise by a principal market maker or a primary market dealer). We expect that there will

not be readily available market values for many of the investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process. With respect to investments for which there is no readily available market value, valuation methods may include comparisons of financial ratios of the portfolio companies that issued such private securities to peer companies that are public. 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 uses the pricing indicated by the external event to corroborate and/or assist us in our valuation of our investment in such portfolio company. 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 are readily available but believed to be inaccurate, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages one or more independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but believed to be inaccurate. The independent valuation firm reviews management's preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker.
- (4) The audit committee of our board of directors reviews the preliminary valuations of our 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 the Investment Adviser, the respective independent valuation firms and the audit committee.

The types of factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

- (b) Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value.
- (c) We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.
- (d) 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 payment-in-kind, or "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 have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. We record prepayment premiums on loans and debt securities as interest income. Dividend income, if any, is recognized on the ex-dividend date.

- (e) Before May 1, 2007 PennantPark Investment was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended (the “Code”), and subject to corporate-level federal, state and local taxes. Starting May 1, 2007 PennantPark Investment intends to comply with the requirements of Subchapter M of the Code, and expects to be subject to tax as a regulated investment company, or “RIC”. As a corporation, PennantPark Investment accounted for income taxes using the asset liability method prescribed by FASB Statement No. 109, “Accounting for Income Taxes.” Under this method, income taxes were provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Federal, state and local taxes of \$105,880 were accrued and included in PennantPark Investment’s statement of operations. Based upon PennantPark Investment’s qualification and election to be subject to tax as a RIC as of its next taxable year-end, we do not anticipate any material taxes in the future. The Company will recognize in its financial statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination.
- (f) Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any to be paid as a dividend is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually.
- (g) In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 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. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, PennantPark Investment is in the process of reviewing the Standard against its valuation policies to determine future applicability.
- (h) In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of this statement to have a significant effect on the Company’s consolidated financial position or its result of operations.

### 3. AGREEMENTS

PennantPark Investment has entered into an Investment Management Agreement with PennantPark Investment Advisers under which the Investment Adviser, subject to the overall supervision of PennantPark Investment’s board of directors, manages the day-to-day operations of and provides investment advisory services to, PennantPark Investment. For providing these services, the Investment Adviser receives a fee from PennantPark Investment, consisting of two components—a base management fee and an incentive fee (collectively, “Management Fees”).

The base management fee is calculated at an annual rate of 2.00% on PennantPark Investment's gross assets (net of U.S. Treasury Bills ("adjusted gross assets")) (See note 9). Although the base management fee is 2.00% of adjusted gross assets, the Investment Adviser has agreed to waive a portion of the base management fee such that the base management fee will equal 1.50% from the consummation of the initial public offering through September 30, 2007; 1.75% from October 1, 2007 through March 31, 2008; and 2.00% thereafter. For the period from the commencement of operations to the consummation of the initial public offering there were no Management Fees. For services rendered under our Investment Management Agreement during the period commencing from the closing of the initial public offering through and including the first six months of operations, the base management fee is payable monthly in arrears. For services rendered under our Investment Management Agreement after that time, the base management fee will be payable quarterly in arrears. For the first quarter of operations, the base management fee was calculated based on the initial value of adjusted gross assets. Subsequently, the base management fee is calculated based on the average value of adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base investment advisory fees for any partial month or quarter are appropriately pro rated. For the period from the consummation of the initial public offering to September 30, 2007, the Investment Adviser received \$1.9 million in base management fee.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on PennantPark Investment's Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, distribution income and any other income, including any other fees other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus PennantPark Investment's operating expenses for the quarter (including the base management fee, any expenses payable under our Administration Agreement, and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with deferred interest feature (such as original issue discount, debt instruments with pay in kind interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of PennantPark Investment's net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). PennantPark Investment pays the Investment Adviser an incentive fee with respect to PennantPark Investment's Pre-Incentive Fee Net Investment Income in each calendar quarter as follows:

(1) no incentive fee in any calendar quarter in which PennantPark Investment's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%; (2) 100% of PennantPark Investment's Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and (3) 20% of the amount of PennantPark Investment's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of our Investment Management Agreement, as of the termination date), commencing on December 31, 2007, and equals 20.0% of PennantPark Investment's 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. However, the incentive fee determined as of December 31, 2007 will be calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation from inception.

For the period from January 11, 2007 (inception) to September 30, 2007, the Investment Adviser did not receive an Incentive Fee.

PennantPark Investment has also entered into an Administration Agreement with PennantPark Investment Administration, LLC (the “Administrator” or “PennantPark Investment Administration”) under which PennantPark Investment Administration provides administrative services for PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment reimburses the Administrator for PennantPark Investment’s allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent, technology systems, insurance and PennantPark Investment’s allocable portion of the costs of the compensation and related expenses for its chief compliance officer, chief financial officer and their respective staffs. The Administrator also provides on PennantPark Investment’s behalf managerial assistance to portfolio companies to which PennantPark Investment is required to provide such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the consolidated statement of operations. For the period from January 11, 2007 (inception) through September 30, 2007, the Investment Adviser was reimbursed approximately \$490,000 from the Company, including expenses it incurred on behalf of the Administrator for services described above.

#### 4. ORGANIZATIONAL AND OFFERING EXPENSES

A portion of the net proceeds of the Company’s initial public offering was used for organizational, offering and other expenses. Organizational expenses were treated as expenses incurred. Offering costs of \$21,309,375 were charged to net assets after the completion of the initial public offering on April 24, 2007.

#### 5. NET ASSET VALUE PER SHARE

On September 30, 2007, PennantPark Investment’s total net assets and net asset value per share were \$270,393,094 and \$12.83, respectively.

#### 6. EARNINGS PER SHARE

The following information sets forth the computation of basic per share net decrease in net assets resulting from operations:

	Period from January 11, 2007 (inception) through September 30, 2007
Numerator for net decrease in net assets per share resulting from operations:	\$ (16,699,251)
Denominator for basic weighted average shares:*	20,936,149
Basic net decrease in net assets per share resulting from operations:	\$ (0.80)

\* Since completion of IPO on April 24, 2007

## 7. INVESTMENTS

Investments consisted of subordinated debt/corporate notes, common equity, second lien secured debt, and first lien secured debt, as of September 30, 2007. The table below describes investments by industry classification and enumerates the percentage, by market value, of the total portfolio assets (excluding cash equivalents) in such industries as of September 30, 2007.

<u>Industry Classification</u>	<u>Percentage at Market Value</u>
Other Media	15%
Consumer Products	8%
Buildings & Real Estate	7%
Business Services	7%
Home & Office Furnishings, Housewares, & Durable Consumer Products	7%
Transportation	7%
Chemical, Plastics & Rubber	6%
Leisure, Amusement, Motion Pictures, Entertainment	6%
Broadcasting & Entertainment	5%
Cable Television	5%
Retail Store	5%
Healthcare, Education & Childcare	4%
Printing & Publishing	3%
Containers, Packaging & Glass	2%
Media	2%
Telecommunications	2%
Utilities	2%
Cargo Transport	2%
Manufacturing / Basic Industries	2%
Oil & Gas	2%
Other	1%
<b>Total Investments</b>	<b>100%</b>

## 8. TAXES AND DISTRIBUTIONS

For the period from inception through April 30, 2007, the Company was taxed as a corporation. As such federal, state and local taxes of \$105,880 were accrued and included in PennantPark Investment's statement of operations. Based upon PennantPark Investment's expected qualification and election to be subject to tax as RIC as of its next taxable year-end, the company does not anticipate paying any corporate level taxes in the future.

As a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code, the Company's income generally will not be subject to taxation to the extent such income is distributed to stockholders. However, certain of the Company's investments may be owned by wholly owned subsidiaries that are subject to corporate level federal, state, and local income tax in their respective jurisdictions. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled.

Since consummation of the initial public offering, through September 30, 2007, the Company has declared distributions totaling \$0.36 per share. Each year a statement on Form 1099-DIV shall be issued identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in-capital surplus which is a nontaxable distribution). To the extent the Company's taxable earnings fall below the total amount of its distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to the Company's stockholders. For the fiscal years ended September 30,

2007 a portion of the distributions to the Company's stockholders was deemed a return of capital. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the actual tax attributes of its distributions for a full year. If the Company determined the tax attributes of its distributions for the fiscal year ended September 30, 2007, 99.6% would be from taxable net investment income and 0.4% would be a return of capital for stockholders, however there can be no certainty to stockholders that this determination is representative of what the tax attributes of its 2007 distributions to stockholders will actually be.

During the fiscal year ended September 30, 2007, as a result of permanent book-to-tax differences primarily due to adjustments relating to: federal and state tax expenses, and net earnings derived during the period prior to qualification as a RIC, the Company decreased distributions in excess of net investment income by \$72,549, increased accumulated net realized loss by \$14,063 and decreased paid-in capital in excess of par value by \$58,486. Aggregate stockholders' equity was not affected by this reclassification. As of September 30, 2007, the cost of investments for federal income tax purposes was \$572,898,221 resulting in a gross unrealized appreciation and depreciation of \$514,690 and \$24,436,668, respectively. The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended September 30, 2007:

Net decrease in stockholders' equity resulting from operations	\$(16,699,251)
Net unrealized depreciation on investments transactions not taxable	23,921,978
Net income derived during the period prior to qualification as a RIC	12,720
Expenses not currently deductible	201,262
Other deductible expenses	(5,753)
<b>Taxable income before deductions for distributions</b>	<b><u>\$ 7,430,956</u></b>

## 9. CASH EQUIVALENTS

Pending investment in longer-term portfolio holdings, PennantPark Investment may invest temporarily in U.S. Treasury Bills (of varying maturities), repurchase agreements, money markets or repo-like treasury securities. These temporary investments with maturities of 90 days or less will be deemed cash equivalents and are included in the Schedule of Investments. At the end of each fiscal quarter, PennantPark Investment typically takes proactive steps to preserve investment flexibility in the next quarter, which is dependent upon the composition of its total assets at quarter end. PennantPark Investment may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out its positions on a net cash basis after quarter-end or by utilizing repurchase agreements or other balance sheet transactions as it deems appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing the asset base upon which the management fee is determined. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are marked-to-market consistent with PennantPark Investment's valuation policy.

## 10. REPURCHASE AGREEMENTS

PennantPark Investment may enter into repurchase agreements as part of its investment program. In these transactions, PennantPark Investment's custodian takes possession of collateral pledged by the counterparty. The collateral is marked-to-market daily to ensure that the value, plus accrued interest, is at least equal to the repurchase price. In the event of default of the obligor to repurchase, PennantPark Investment will have the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the counterparty to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings. There were no repurchase agreements outstanding at September 30, 2007.

## 11. FINANCIAL HIGHLIGHTS

The following is a schedule of financial highlights for the period from January 11, 2007 (inception) through September 30, 2007:

### Per Share Data:

Net asset value, beginning of period	\$	0.00
Net investment income		0.35
Net realized and unrealized loss		(1.15)
Net decrease in net assets resulting from operations		(0.80)
Distributions to stockholders <sup>(1)</sup>		(0.36)
Offering costs related to public offerings		(1.01)
Issuance of common stock		15.00
Net asset value, end of period	\$	12.83
Per share market value at end of period	\$	13.40
Total return <sup>(2)*</sup>		(8.29)%
Shares outstanding at end of period		21,068,772

### Ratio/Supplemental Data:

Net assets at end of period		\$270,393,094
Ratio of net investment income to average net assets <sup>(3)*</sup>		2.60%
Ratio of operating expenses before management fee waiver to average net assets <sup>(3)*</sup>		2.21%
Ratio of operating expenses after management fee waiver to average net assets <sup>(3)*</sup>		1.98%
Ratio of credit facility related expenses to average net assets <sup>(3)*</sup>		0.08%
Ratio of total expenses to average net assets <sup>(3)*</sup>		2.06%
Average debt outstanding <sup>(3)</sup>	\$	817,610
Average debt per share <sup>(3)</sup>	\$	0.04
Portfolio turnover ratio*		44.7%

\* Percentage has not been annualized.

- (1) Dividends and distributions are 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.
- (2) Total return is based on the change in market price per share during the reporting period based on stock issuance price of \$15.00. It also takes into account distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.
- (3) Since completion of initial public offering on April 24, 2007.

## 12. CREDIT FACILITY

On June 25, 2007, PennantPark Investment entered into a Senior Secured Revolving Credit Agreement (the "Credit Agreement") among PennantPark Investment, various lenders and SunTrust Bank, as administrative agent for the lenders. SunTrust Robinson Humphrey Capital Markets acted as the joint lead arranger and book-runner, and Bear Stearns Corporate Lending Inc. acted as joint lead arranger and syndication agent. As of September 30, there was \$10.0 million in outstanding borrowings under the Credit Agreement, with an average interest rate of 6.15%.

Under the Credit Agreement, the lenders agreed to extend credit to PennantPark Investment in an initial aggregate principal or face amount not exceeding \$300,000,000 at any one time outstanding. The Credit Agreement 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 PennantPark Investment's portfolio. Pricing is set at 100 basis points over LIBOR.

The Credit Agreement contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintenance of a minimum stockholders' 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 Agreement, (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 stockholders as contemplated to maintain Regulated Investment Company 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 the Credit Agreement (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. See our Credit Agreement, Exhibit 10.5, to this Report (incorporated by reference), for the definitions of capitalized terms used by us relating to the Credit Agreement but not defined in this note. The Credit Agreement will be used to supplement our equity capital to make additional portfolio investments and for other general corporate purposes.

Separately, Pennant SPV entered into a senior secured credit facility on February 6, 2007 with Bear Stearns Investment Products Inc., as lender. Under the terms of this credit agreement, as amended on March 26, 2007, Bear Stearns Investment Products Inc. agreed to extend credit to Pennant SPV in an aggregate principal of up to \$250 million at any one time outstanding. Borrowings under this credit agreement were used to finance investments made by PennantPark Investment prior to the closing of the initial public offering. By its terms this credit agreement matured on the closing date of the initial public offering on April 24, 2007, and accordingly PennantPark Investment caused Pennant SPV to repay the credit facility with Bear Stearns Investment Products Inc. in full.

### **13. COMMITMENTS AND CONTINGENCIES**

From time to time, we, the Investment Adviser or Administrator, may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Unfunded debt investments described in the consolidated statement of assets and liabilities represent unfunded delayed draws on investments in first lien secured debt.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders  
PennantPark Investment Corporation

We have reviewed the accompanying statement of assets and liabilities of PennantPark Investment Corporation (the "Company"), including the schedule of investments, as of December 31, 2007, and the related statements of operations, changes in net assets and cash flows for the three month period then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities of PennantPark Investment Corporation, including the schedule of investments, as of September 30, 2007, and the related consolidated statements of operations, changes in net assets and cash flows for the period from January 11, 2007 (inception) through September 30, 2007; and in our report dated December 12, 2007, we expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

New York, New York  
February 8, 2008



**PENNANTPARK INVESTMENT CORPORATION**  
**STATEMENTS OF ASSETS AND LIABILITIES**

	<u>December 31, 2007</u> <u>(Unaudited)</u>	<u>September 30,</u> <u>2007</u>
<b>Assets</b>		
Investments, at fair value (cost—\$382,162,705 and \$314,881,870 respectively) <sup>1</sup>	\$ 342,190,612	\$ 291,016,608
Cash equivalents (cost—\$81,788,219 and \$258,016,351 respectively)	81,780,690	257,959,635
Interest receivable	4,263,953	4,517,850
Prepaid expenses and other assets	1,443,726	1,513,583
<b>Total assets</b>	<u>429,678,981</u>	<u>555,007,676</u>
<b>Liabilities</b>		
Payable for cash equivalents purchased	79,406,889	252,759,931
Payable for investments purchased	—	16,583,921
Unfunded investments	3,091,264	3,989,948
Credit facility payable	91,500,000	10,000,000
Interest payable	769,889	170,989
Accrued other expenses	689,631	1,109,793
<b>Total liabilities</b>	<u>175,457,673</u>	<u>284,614,582</u>
<b>Net Assets</b>		
Common stock, par value \$.001 per share, 100,000,000 shares authorized and 21,068,772 shares issued and outstanding	21,069	21,069
Paid-in capital in excess of par	294,586,604	294,586,604
Distributions in excess of net investment income	(100,020)	(196,769)
Accumulated net realized loss	(306,723)	(95,832)
Net unrealized depreciation on investments and cash equivalents	(39,979,622)	(23,921,978)
<b>Total net assets</b>	<u>\$ 254,221,308</u>	<u>\$ 270,393,094</u>
<b>Total liabilities and net assets</b>	<u>\$ 429,678,981</u>	<u>\$ 555,007,676</u>
<b>Net asset value per share</b>	<u>\$ 12.07</u>	<u>\$ 12.83</u>

<sup>1</sup> None of our portfolio companies is controlled by, or affiliated with, PennantPark Investment Corporation as defined by the Investment Company Act of 1940, as amended (the "1940 Act").

SEE NOTES TO FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION**  
**STATEMENT OF OPERATIONS (UNAUDITED)**

	<b>Three months ended December 31, 2007</b>
<b>Investment Income:</b>	
Interest	\$ 8,983,636
Other	19,972
<b>Total Investment income</b>	<b>9,003,608</b>
<b>Expenses:</b>	
Base management fee	1,640,365
Performance-based incentive fee (see note 3)	447,382
Interest and other credit facility expenses	1,097,107
Administrative services expenses	663,690
Professional fees	294,840
Directors' fees	155,758
Insurance	90,790
Other general and administrative expenses	86,844
<b>Expenses before base management fee waiver</b>	<b>4,476,776</b>
Base management fee waiver	(205,047)
<b>Net expenses</b>	<b>4,271,729</b>
<b>Net investment income</b>	<b>4,731,879</b>
<b>Realized and unrealized loss on investments and cash equivalents:</b>	
Net realized loss on investments and cash equivalents	(210,891)
Change in net unrealized depreciation on investments and cash equivalents	(16,057,644)
<b>Net realized and unrealized loss from investments and cash equivalents</b>	<b>(16,268,535)</b>
<b>Net decrease in net assets resulting from operations</b>	<b>\$ (11,536,656)</b>
<b>Earnings per common share (see note 6)</b>	<b>\$ (0.54)</b>

SEE NOTES TO FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION**  
**STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)**

	Three months ended December 31, 2007	Period from January 11, 2007 (inception) Through September 30, 2007
<b>Decrease in net assets from operations:</b>		
Net investment income	\$ 4,731,879	\$ 7,304,496
Net realized loss on investments and cash equivalents	(210,891)	(81,769)
Net change in unrealized depreciation on investments and cash equivalents	(16,057,644)	(23,921,978)
<b>Net decrease in net assets resulting from operations</b>	<u>(11,536,656)</u>	<u>(16,699,251)</u>
<b>Dividends and distributions to Stockholders:</b>		
Dividends from net investment income	(4,635,130)	(7,545,458)
Return of capital	—	(28,356)
<b>Total dividends and distributions</b>	<u>(4,635,130)</u>	<u>(7,573,814)</u>
<b>Capital share transactions:</b>		
Issuance of shares of common stock	—	315,375,000
Offering costs related to public share offerings	—	(21,309,375)
Reinvestment of dividends	—	600,534
<b>Net increase in net assets resulting from capital share transactions</b>	<u>—</u>	<u>294,666,159</u>
<b>Total (decrease) increase in net assets</b>	<u>(16,171,786)</u>	<u>270,393,094</u>
<b>Net Assets:</b>		
Beginning of Period	270,393,094	—
End of Period	<u>\$ 254,221,308</u>	<u>\$ 270,393,094</u>
<b>Capital Share Activity:</b>		
Shares issued from subscriptions	—	21,025,000
Shares issued from reinvestment of dividend	—	43,772
<b>Total increase in capital shares</b>	<u>—</u>	<u>21,068,772</u>

SEE NOTES TO FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION**  
**STATEMENT OF CASH FLOWS (UNAUDITED)**

	<b>Three months ended December 31, 2007</b>
<b>Cash flows from operating activities:</b>	
Net decrease in net assets resulting from operations	\$ (11,536,656)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used by operating activities:	
Change in net unrealized depreciation on investments and cash equivalents	16,057,644
Net realized loss on investments and cash equivalents	210,891
Net accretion of discount and amortization of premium	(229,966)
Purchase of investments	(70,955,314)
Payment-in-kind interest	(586,297)
Proceeds from disposition of investments	4,329,037
Decrease in interest receivable	253,897
Increase in interest payable on credit facility	598,901
Decrease in prepaid expenses and other assets	69,857
Decrease in payables for cash equivalents purchased	(173,353,042)
Decrease in payables for investments purchased	(16,583,921)
Decrease in unfunded investments	(898,684)
Decrease in accrued expenses	(420,162)
Net cash used by operating activities	<u>(253,043,815)</u>
<b>Cash flows from financing activities:</b>	
Dividends and distributions to stockholders	(4,635,130)
Borrowings under credit facility (see note 12)	140,500,000
Repayments under credit facility (see note 12)	(59,000,000)
Net cash provided by financing activities	<u>76,864,870</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(176,178,945)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>257,959,635</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 81,780,690</u>
<b>Supplemental disclosure of cash flow information:</b>	
Interest paid during the three months ended December 31, 2007	<u>\$ 276,176</u>
Non-cash financing activities consisting of the reinvestment of dividends	<u>\$ —</u>

SEE NOTES TO FINANCIAL STATEMENTS

**PENNAENTPARK INVESTMENT CORPORATION**  
**SCHEDULE OF INVESTMENTS DECEMBER 31, 2007 (UNAUDITED)**

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>Subordinated Debt / Corporate Notes—28.8%</b>							
ADVANSTAR, INC.	11/30/2015	OTHER MEDIA	11.84%*	L+700	\$ 15,030,273	\$ 15,030,273	\$ 14,654,516
AFFINION GROUP HOLDINGS, INC.	03/01/2012	CONSUMER PRODUCTS	11.68%*	L+625	18,500,000	18,128,846	17,035,411
INTERDYNAMICS HOLDINGS, INC.	05/20/2012	AUTO SECTOR	13.75%	—	20,000,000	19,464,060	20,000,000
PERFORMANCE HOLDINGS, INC.	07/02/2014	LEISURE, AMUSEMENT, MOTION PICTURES, ENTERTAINMENT	14.25%*	—	3,974,292	3,735,200	3,974,292
REALOLOGY CORP. <sup>(5)</sup>	04/15/2015	BUILDINGS & REAL ESTATE	12.38%	—	28,000,000	26,171,601	17,640,000
<b>Total Subordinated Debt / Corporate Notes</b>					<u>85,504,565</u>	<u>82,529,980</u>	<u>73,304,219</u>
<b>Second Lien secured Debt—44.7%</b>							
BRAND ENERGY & INFRASTRUCTURE SERVICES, INC.	02/07/2015	ENERGY / UTILITIES	11.10%	L+600	11,600,000	11,244,938	10,672,000
BRAND ENERGY & INFRASTRUCTURE SERVICES, INC.	02/07/2015	ENERGY / UTILITIES	12.00%	L+700	12,000,000	11,645,602	11,460,000
GENERICIS INTERNATIONAL (U.S.), INC.	05/19/2015	HEALTHCARE, EDUCATION & CHILDCARE	12.33%	L+750	12,000,000	11,941,028	11,940,000
PERFORMANCE, INC.	07/02/2013	LEISURE, AMUSEMENT, MOTION PICTURES, ENTERTAINMENT	10.66%	L+575	8,750,000	8,750,000	8,570,625
QUESTEX MEDIA GROUP, INC.	11/04/2014	OTHER MEDIA	11.63%	L+650	10,000,000	10,000,000	9,750,000
SAINT ACQUISITION CORP. <sup>(5)</sup>	05/15/2015	TRANSPORTATION	12.62%	L+775	10,000,000	9,937,031	5,162,500
SAINT ACQUISITION CORP. <sup>(5)</sup>	05/15/2017	TRANSPORTATION	12.50%	—	19,000,000	16,290,019	9,808,750
SHERIDAN HOLDINGS, INC.	06/15/2015	HEALTHCARE, EDUCATION & CHILDCARE	10.97%*	L+575	12,500,000	11,765,679	11,640,625
SPECIALIZED TECHNOLOGY RESOURCES, INC.	12/15/2014	CHEMICAL, PLASTICS & RUBBER	11.85%*	L+700	22,500,000	22,484,193	22,275,000
HOLDINGS, INC.	06/15/2015	BUSINESS SERVICES	10.83%*	L+600	13,000,000	12,889,791	12,220,000
<b>Total second Lien secured Debt</b>					<u>131,350,000</u>	<u>126,948,281</u>	<u>113,499,500</u>

SEE NOTES TO FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>Common Equity**—2.6%</b>							
VSS-AHC HOLDINGS, L.L.C.	—	OTHER MEDIA	—	—	3,000	\$ 3,000,000	\$ 3,170,325
PERFORMANCE HOLDINGS, INC.	—	LEISURE, AMUSEMENT, MOTION PICTURES, ENTERTAINMENT	—	—	37,500	3,750,000	3,434,606
<b>Total Common Equity</b>					<b>40,500</b>	<b>6,750,000</b>	<b>6,604,931</b>
<b>First Lien secured Debt—58.5%</b>							
					<b>Par</b>		
BERRY PLASTICS GROUP, INC.	04/03/2015	CONTAINERS, PACKAGING & GLASS	7.16%	L+200	\$ 7,443,750	7,443,750	6,943,366
BRAND ENERGY & INFRASTRUCTURE SERVICES, INC.	02/07/2014	ENERGY / UTILITIES	7.14%	L+225	1,985,000	1,985,000	1,872,516
BURLINGTON COAT FACTORY WAREHOUSE CORP.	05/28/2013	RETAIL STORE	7.32%	L+225	7,896,473	7,887,934	6,931,350
CHARTER COMMUNICATIONS OPERATING, L.L.C.	03/06/2014	CABLE TELEVISION	6.99%	L+200	15,000,000	14,993,023	14,001,930
COHR HOLDINGS, INC.	01/31/2013	HEALTHCARE, EDUCATION & CHILDCARE	7.58%	L+250	2,977,500	2,977,500	2,084,250
GATEHOUSE MEDIA OPERATING, INC.	08/28/2014	MEDIA	7.12%	L+200	7,000,000	7,000,000	5,957,000
GENERAL NUTRITION CENTERS, INC.	09/16/2013	RETAIL STORE	7.26%	L+225	6,451,250	6,455,120	5,889,991
GREATWIDE LOGISTICS SERVICES, INC.	12/19/2013	CARGO TRANSPORT	8.33%	L+350	6,930,000	6,930,000	5,725,913
HANLEY-WOOD, L.L.C.	03/08/2014	OTHER MEDIA	7.48%	L+225	8,955,000	8,955,000	7,141,613
HAWKER BEECHCRAFT, INC.	03/28/2014	AEROSPACE & DEFENSE	6.78%	L+200	1,986,170	1,986,170	1,884,379
HEALTH MANAGEMENT ASSOCIATES, INC.	02/28/2014	HEALTHCARE, EDUCATION & CHILDCARE	6.58%	L+175	9,925,000	9,925,000	9,241,277
HUGHES NETWORK SYSTEMS, L.L.C.	04/15/2014	TELECOMMUNICATIONS	7.56%	L+250	5,000,000	5,000,000	4,425,000

SEE NOTES TO FINANCIAL STATEMENTS

**PENNAENTPARK INVESTMENT CORPORATION**  
**SCHEDULE OF INVESTMENTS**  
**DECEMBER 31, 2007**  
**(UNAUDITED)**

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>First Lien secured Debt—(continued)</b>							
JACUZZI BRANDS CORP.	02/07/2014	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	7.12%	L+225	\$ 9,963,514	\$ 9,963,514	\$ 8,678,220
LEVVLAD, L.L.C.	03/08/2014	CONSUMER PRODUCTS	7.18%	L+225	4,842,920	4,842,920	3,819,853
LONGVIEW POWER, L.L.C.	02/28/2014	UTILITIES	7.18%	L+225	2,516,000	2,516,000	2,418,505
LONGVIEW POWER, L.L.C. <sup>(4)</sup>	02/28/2014	UTILITIES	—	—	484,000	484,000	465,245
MACH GEN, L.L.C.	02/22/2014	UTILITIES	6.98%	L+200	3,963,750	3,962,534	3,741,780
MATTRESS HOLDING CORP.	01/18/2014	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	7.40%	L+225	3,980,025	3,980,025	3,383,021
MITCHELL INTERNATIONAL, INC.	03/28/2014	BUSINESS SERVICES	6.84%	L+200	3,970,000	3,970,000	3,662,325
NATIONAL BEDDING CO., L.L.C.	08/31/2011	HOME & OFFICE FURNISHINGS, HOUSEWARES, & DURABLE CONSUMER PRODUCTS	8.01%	L+200	6,947,500	6,953,725	6,264,331
PENTON MEDIA, INC.	02/01/2013	OTHER MEDIA	7.23%	L+225	4,962,500	4,962,500	4,478,656
PHILOSOPHY, INC.	03/16/2014	CONSUMER PRODUCTS	6.98%	L+200	1,485,867	1,485,867	1,292,704
QUESTEX MEDIA GROUP, INC.	05/04/2014	OTHER MEDIA	8.03%	L+300	4,961,667	4,961,667	4,788,008
READER'S DIGEST ASSOCIATION, INC.	03/02/2014	PRINTING & PUBLISHING	7.36%	L+200	995,003	995,003	898,819
REXNORD, L.L.C.	07/19/2013	MANUFACTURING/ BASIC INDUSTRIES	7.40%	L+225	4,937,500	4,937,500	4,783,203
SITEL, L.L.C.	01/30/2014	BUSINESS SERVICES	7.29%	L+250	2,867,302	2,867,302	2,559,067
UNIVISION COMMUNICATIONS INC.	09/29/2014	BROADCASTING & ENTERTAINMENT	7.21%	L+225	14,496,644	14,496,644	13,197,991
UNIVISION COMMUNICATIONS INC. <sup>(4)</sup>	09/29/2014	BROADCASTING & ENTERTAINMENT	—	—	503,356	503,356	458,264
VALASSIS COMMUNICATIONS, INC.	03/02/2014	PRINTING & PUBLISHING	6.58%	L+175	6,713,768	6,713,768	6,310,942

SEE NOTES TO FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2007

(UNAUDITED)

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>FiLien secured Debt—(continued)</b>							
VALASSIS COMMUNICATIONS, INC. <sup>(4)</sup>	03/02/2014	PRINTING & PUBLISHING	—	—	\$ 2,103,908	\$ 2,103,908	\$ 1,977,674
WESTERN REFINING, INC.	05/30/2014	OIL & GAS	6.60%	L+175	3,695,714	3,695,714	3,504,769
<b>Total first Lien secured Debt</b>					<u>165,941,081</u>	<u>165,934,444</u>	<u>148,781,962</u>
<b>Total investments —134.6%</b>						\$ 382,162,705	\$ 342,190,612
<b>Cash equivalents—32.2%</b>							
U.S. TREASURY BILL	03/27/2008		3.14%	—	\$ 80,000,000	\$ 79,406,889	\$ 79,399,360
MONEY MARKET—MUTUAL FUNDS			—	—	2,381,330	2,381,330	2,381,330
<b>Total cash equivalents</b>					<u>\$ 82,381,330</u>	<u>\$ 81,788,219</u>	<u>\$ 81,780,690</u>
<b>Total investments and cash equivalents</b>						<u>\$ 463,950,924</u>	<u>\$ 423,971,302</u>
<b>Liabilities in excess of other assets—(66.8%)</b>							<u>(169,749,994)</u>
<b>Net assets—100.0%</b>							<u>\$ 254,221,308</u>

- (1) We do not “control” and are not an “affiliate” of any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would be presumed to “control” a portfolio company if we owned 25% or more of its voting securities and would be deemed to be an “affiliate” of a portfolio company if we owned 5% or more of its voting securities.
  - (2) Valued based on our accounting policy (see note 2 to our financial statements).
  - (3) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offer Rate (LIBOR, or, “L”).
  - (4) Represents purchases of securities with delayed draws. These securities do not have a basis point spread above index.
  - (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- \* Coupon payable in cash or payment in kind.
- \*\* Non-income producing.

SEE NOTES TO FINANCIAL STATEMENTS



PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>Subordinated Debt / Corporate Notes— 21.2%</b>							
ADVANSTAR, INC.	11/30/2015	OTHER MEDIA	12.20%*	L+700	\$ 14,580,690	\$ 14,580,690	\$ 14,580,690
AFFINION GROUP HOLDINGS, INC.	03/01/2012	CONSUMER PRODUCTS	11.68%*	L+625	18,500,000	18,106,103	17,760,000
PERFORMANCE HOLDINGS, INC.	07/02/2014	LEISURE, AMUSEMENT, MOTION PICTURES & ENTERTAINMENT	14.25%*	—	3,837,578	3,592,573	3,837,578
REALOGY CORP. <sup>(5)</sup>	04/15/2015	BUILDINGS & REAL ESTATE	12.38%	—	28,000,000	26,117,780	21,140,000
<b>Total Subordinated Debt / Corporate Notes</b>					<u>64,918,268</u>	<u>62,397,146</u>	<u>57,318,268</u>
<b>Second Lien secured Debt—25.0%</b>							
PERFORMANCE, INC.	07/02/2014	LEISURE, AMUSEMENT, MOTION PICTURES & ENTERTAINMENT	11.11%	L+575	8,750,000	8,750,000	8,750,000
QUESTEX MEDIA GROUP, INC.	11/04/2014	OTHER MEDIA	12.08%	L+650	10,000,000	10,000,000	9,800,000
SAINTE ACQUISITION CORP. <sup>(5)</sup>	05/15/2015	TRANSPORTATION	13.31%	L+775	10,000,000	9,932,321	6,800,000
SAINTE ACQUISITION CORP. <sup>(5)</sup>	05/15/2017	TRANSPORTATION	12.50%	—	19,000,000	16,198,167	12,730,000
SPECIALIZED TECHNOLOGY RESOURCES, INC.	12/15/2014	CHEMICAL, PLASTICS & RUBBER	12.13%	L+700	17,500,000	17,493,750	17,237,500
TRANSFIRST HOLDINGS, INC.	06/15/2015	BUSINESS SERVICES	11.30%*	L+600	<u>13,000,000</u>	<u>12,886,250</u>	<u>12,431,250</u>
<b>Total second Lien secured Debt</b>					<u>78,250,000</u>	<u>75,260,488</u>	<u>67,748,750</u>
<b>Shares</b>							
<b>Common Equity**—2.6%</b>							
VSS-AHC HOLDINGS, L.L.C.	—	OTHER MEDIA	—	—	3,000	3,000,000	3,269,685
PERFORMANCE HOLDINGS, INC.	—	LEISURE, AMUSEMENT, MOTION PICTURES & ENTERTAINMENT	—	—	37,500	3,750,000	3,750,000
<b>Total Common Equity</b>					<u>40,500</u>	<u>6,750,000</u>	<u>7,019,685</u>

SEE NOTES TO FINANCIAL STATEMENTS

PENNAANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>First Lien secured Debt—58.8%</b>							
BERRY PLASTICS GROUP, INC.		CONTAINERS,					
	04/03/2015	PACKAGING & GLASS	7.34%	L+200	\$ 7,462,500	\$ 7,462,500	\$ 7,274,602
BURLINGTON COAT FACTORY WAREHOUSE CORP.	05/28/2013	RETAIL STORE	7.76%	L+225	7,896,473	7,887,537	7,571,975
CHARTER COMMUNICATIONS OPERATING, L.L.C.	03/06/2014	CABLE TELEVISION	7.13%	L+200	15,000,000	14,992,740	14,468,310
COHR HOLDINGS, INC.	01/31/2013	HEALTH CARE, EDUCATION & CHILDCARE	8.04%	L+250	2,985,000	2,985,000	2,388,000
FR BRAND ACQUISITION CORP.	02/07/2014	ENERGY / UTILITIES	7.53%	L+225	1,990,000	1,990,000	1,887,183
GATEHOUSE MEDIA OPERATING, INC.	08/28/2014	MEDIA	7.47%	L+200	7,000,000	7,000,000	6,405,000
GENERAL NUTRITION CENTERS, INC.	09/16/2013	RETAIL STORE	7.61%	L+225	6,483,750	6,487,788	6,147,405
GREATWIDE LOGISTICS SERVICES, INC.	12/19/2013	CARGO TRANSPORT	8.70%	L+350	6,947,500	6,947,500	6,079,062
HANLEY-WOOD, L.L.C.	03/08/2014	OTHER MEDIA	7.60%	L+225	9,000,000	9,000,000	7,845,003
HAWKER BEEHCRAFT, INC.	03/28/2014	AEROSPACE & DEFENSE	7.21%	L+200	1,990,780	1,990,780	1,930,226
HEALTH MANAGEMENT ASSOCIATES, INC.	02/28/2014	HEALTH CARE, EDUCATION & CHILDCARE	6.95%	L+175	9,950,000	9,950,000	9,441,615
HUGHES NETWORK SYSTEMS, L.L.C.	04/15/2014	TELECOMMUNICATIONS HOME & OFFICE	8.06%	L+250	5,000,000	5,000,000	4,625,000
JACUZZI BRANDS CORP.	02/07/2014	FURNISHINGS, HOUSE WARES & DURABLES	7.44%	L+225	9,963,514	9,963,514	8,947,235
LEVEL 3 FINANCING, INC.	03/13/2014	TELECOMMUNICATIONS	7.61%	L+225	2,000,000	2,000,000	1,939,642
LEVAD, L.L.C.	03/08/2014	CONSUMER PRODUCTS	7.58%	L+225	4,842,920	4,842,920	3,357,757
LONGVIEW POWER, L.L.C.	02/28/2014	UTILITIES	7.56%	L+225	2,020,000	2,020,000	1,939,200
LONGVIEW POWER, L.L.C. <sup>(4)</sup>	02/28/2014	UTILITIES	—	—	980,000	980,000	940,800
MACH GEN, L.L.C.	02/22/2014	UTILITIES	7.34%	L+200	3,972,813	3,971,545	3,845,683

SEE NOTES TO FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>First Lien secured Debt—(continued)</b>							
MATTRESS HOLDING CORP.	01/18/2014	HOME & OFFICE FURNISHINGS, HOUSE WARES & DURABLES	7.61%	L+225	\$ 3,990,000	\$ 3,990,000	\$ 3,740,625
MCJUNKIN CORP.	01/31/2014	OIL & GAS	7.45%	L+225	982,525	982,525	965,331
MITCHELL INTERNATIONAL, INC.	03/28/2014	BUSINESS SERVICES	7.20%	L+200	3,980,000	3,980,000	3,835,725
NATIONAL BEDDING CO., L.L.C.	08/31/2011	HOME & OFFICE FURNISHINGS, HOUSE WARES & DURABLES	7.43%	L+200	6,965,000	6,971,653	6,668,988
PENTON MEDIA, INC.	02/01/2013	OTHER MEDIA	7.59%	L+225	4,975,000	4,975,000	4,716,922
PHILOSOPHY, INC.	03/16/2014	CONSUMER PRODUCTS	7.36%	L+200	1,493,333	1,493,333	1,344,000
PROQUEST CSA, L.L.C.	02/09/2014	EDUCATION	8.20%	L+300	955,833	955,833	936,716
QUESTEX MEDIA GROUP, INC.	05/04/2014	OTHER MEDIA	8.56%	L+300	4,974,167	4,974,167	4,839,742
READER'S DIGEST ASSOCIATION, INC.	03/02/2014	PRINTING & PUBLISHING	7.43%	L+200	995,006	995,006	940,281
REXNORD, L.L.C.	07/19/2013	MANUFACTURING/BASIC INDUSTRIES	7.64%	L+225	4,937,500	4,937,500	4,835,664
SITEL, L.L.C.	01/30/2014	BUSINESS SERVICES	7.78%	L+250	2,867,302	2,867,302	2,680,927
UNIVISION COMMUNICATIONS, INC.	09/29/2014	BROADCASTING & ENTERTAINMENT	7.57%	L+225	14,093,960	14,093,960	13,389,262
UNIVISION COMMUNICATIONS, INC. <sup>(4)</sup>	09/29/2014	BROADCASTING & ENTERTAINMENT	—	—	906,040	906,040	860,738
VALASSIS COMMUNICATIONS, INC.	03/02/2014	PRINTING & PUBLISHING	6.95%	L+175	7,061,899	7,061,899	6,549,911
VALASSIS COMMUNICATIONS, INC. <sup>(4)</sup>	03/02/2014	PRINTING & PUBLISHING	—	—	2,103,908	2,103,908	1,951,375
WESTERN REFINING, INC.	05/30/2014	OIL & GAS	6.88%	L+175	3,714,286	3,714,286	3,640,000
<b>Total first Lien secured Debt</b>					<u>170,481,009</u>	<u>170,474,236</u>	<u>158,929,905</u>
<b>Total investments —107.6%</b>						<u>\$ 314,881,870</u>	<u>\$ 291,016,608</u>

SEE NOTES TO FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

Issuer name <sup>(1)</sup>	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(3)</sup>	Par	Cost	Value <sup>(2)</sup>
<b>Cash equivalents—95.4%</b>							
U.S. TREASURY BILL	12/27/2007		3.64%	—	\$255,000,000	\$252,759,931	\$ 252,703,215
MONEY MARKET—MUTUAL FUNDS			—	—	5,256,420	5,256,420	5,256,420
Total Cash Equivalents—95.4%					<u>260,256,420</u>	<u>258,016,351</u>	<u>257,959,635</u>
<b>Total Investments and Cash Equivalents</b>					<u>\$573,946,197</u>	<u>\$572,898,221</u>	<u>\$ 548,976,243</u>
<b>Liabilities in Excess of Other Assets— (103.0%)</b>							<u>(278,583,149)</u>
<b>Net Assets— 100.0%</b>							<u>\$ 270,393,094</u>

(1) We do not “control” and are not an “affiliate” of any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would be presumed to “control” a portfolio company if we owned 25% or more of its voting securities and would be deemed to be an “affiliate” of a portfolio company if we owned 5% or more of its voting securities.

(2) Valued based on our accounting policy (see note 2 to our financial statements).

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

(4) Represents purchases of securities with delayed draws. These securities do not have a basis point spread above index.

(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

\* Coupon payable in cash or payment in kind.

\*\* Non-income producing.

SEE NOTES TO FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**  
**(UNAUDITED)**

**1. ORGANIZATION**

PennantPark Investment Corporation (“PennantPark Investment” or “Company”) was organized as a Maryland corporation on January 11, 2007. PennantPark Investment’s objective is to generate both current income and capital appreciation through debt and equity investments. PennantPark Investment invests primarily in U.S. middle-market companies in the form of mezzanine debt, first lien secured debt and equity investments. Before the completion of its initial public offering on April 24, 2007, PennantPark Investment had limited operations other than the sale and issuance of 80,000 shares of common stock at a price of \$15.00 per share to PennantPark Investment Advisers, LLC (the “Investment Adviser” or “PennantPark Investment Advisers”), resulting in net proceeds of \$1.2 million, and the purchase of first lien secured debt.

On April 24, 2007 PennantPark Investment closed its Initial Public Offering and sold 20,000,000 shares of common stock at a price of \$15.00 per share, resulting in net proceeds of \$279.6 million. Also, on April 24, 2007 PennantPark Investment closed a private placement to officers, directors, the Investment Adviser and managers of the Investment Adviser, pursuant to Regulation D promulgated under the Securities Act of 1933, and issued an additional 320,000 shares of common stock at a price of \$15.00 per share, resulting in net proceeds of \$4.8 million. On May 21, 2007, the underwriters of the initial public offering exercised their over-allotment option under the Underwriting Agreement and elected to purchase 625,000 shares of common stock at a price of \$15.00 per share, resulting in net proceeds of \$8.8 million.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Actual results could differ from these estimates.

The financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X under the Exchange Act, we are providing a Statement of Changes in Net Assets in lieu of a Statement of Changes in Stockholders’ Equity.

The significant accounting policies consistently followed by PennantPark Investment are:

(a) Security transactions are recorded on a trade-date basis. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Subordinated debt, first lien secured debt and other debt securities with maturities greater than 60 days generally are valued by an independent pricing service or at the bid prices from at least two broker/dealers (if available, otherwise by a principal market maker or a primary market dealer). We expect that there will not be readily available market values for many of the investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process. With respect to investments for which there is no readily available market value, valuation methods may include

comparisons of financial ratios of the portfolio companies that issued such private securities to peer companies that are public. 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 uses the pricing indicated by the external event to corroborate and/or assist us in our valuation of our investment in such portfolio company. 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 are readily available but are believed to be inaccurate, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

The factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

- (b) Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value.
- (c) We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.
- (d) 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 payment-in-kind, or "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 have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. We record prepayment premiums on loans and debt securities as interest income. Dividend income, if any, is recognized on the ex-dividend date.

(e) Before May 1, 2007 PennantPark Investment was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended (the “Code”), and subject to corporate-level federal, state and local taxes. From May 1, 2007, PennantPark Investment has complied with the requirements of Subchapter M of the Code, and expects to be subject to tax as a regulated investment company, or “RIC”. As a corporation, PennantPark Investment accounted for income taxes using the asset liability method prescribed by FASB Statement No. 109, “Accounting for Income Taxes.” Under this method, income taxes were provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Federal, state and local taxes of \$105,880 were accrued and included in PennantPark Investment’s statement of operations for the year ended September 30, 2007. These amounts were paid to the tax authorities in December 2007. Based upon PennantPark Investment’s qualification and election to be subject to tax as a RIC as of its next taxable year-end, we do not anticipate any material taxes in the future. The Company recognizes in its financial statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination.

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

(g) In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 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. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, PennantPark Investment is in the process of reviewing SFAS 157 against its valuation policies to determine future applicability.

(h) In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election.

This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of this statement to have a significant effect on the Company’s financial position or its result of operations.

### **3. AGREEMENTS**

PennantPark Investment has entered into an Investment Management Agreement with PennantPark Investment Advisers, LLC under which the Investment Adviser, subject to the overall supervision of PennantPark Investment’s board of directors, manages the day-to-day operations of and provides investment advisory services to, PennantPark Investment. For providing these services, the Investment Adviser receives a fee from PennantPark Investment, consisting of two components—a base management fee and an incentive fee (collectively, “Management Fees”).

The base management fee is calculated at an annual rate of 2.00% on PennantPark Investment’s gross assets (net of U.S. Treasury Bills (“adjusted gross assets”)) (see note 9). Although the base management fee is 2.00% of adjusted gross assets, the Investment Adviser has agreed to waive a portion of the base management fee such that the base management fee will equal 1.50% from the consummation of the initial public offering through September 30, 2007; 1.75% from October 1, 2007 through March 31, 2008; and 2.00% thereafter. For the period

from the commencement of operations to the consummation of the initial public offering there were no Management Fees. For services rendered under our Investment Management Agreement during the period commencing from the closing of the initial public offering through and including the first six months of operations, the base management fee is payable monthly in arrears. For services rendered under our Investment Management Agreement after that time, the base management fee will be payable quarterly in arrears. For the first quarter of operations, the base management fee was calculated based on the initial value of adjusted gross assets. Subsequently, the base management fee is calculated based on the average value of adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base investment advisory fees for any partial month or quarter are appropriately pro rated. For the three months ended December 31, 2007, the Investment Adviser received a base management fee of \$1.4 million from the Company.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on PennantPark Investment's Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, distribution income and any other income, including any other fees other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus PennantPark Investment's operating expenses for the quarter (including the base management fee, any expenses payable under our Administration Agreement, and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with deferred interest feature (such as original issue discount, debt instruments with pay in kind interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of PennantPark Investment's net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). PennantPark Investment pays the Investment Adviser an incentive fee with respect to PennantPark Investment's Pre-Incentive Fee Net Investment Income in each calendar quarter as follows:

(1) no incentive fee in any calendar quarter in which PennantPark Investment's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%; (2) 100% of PennantPark Investment's Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and (3) 20% of the amount of PennantPark Investment's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of our Investment Management Agreement, as of the termination date), commencing on December 31, 2007, and equals 20.0% of PennantPark Investment's 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. However, the incentive fee determined as of December 31, 2007 will be calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation from inception. For the three months ended December 31, 2007, the Investment Adviser received an Incentive Fee of approximately \$447,000 from the Company.

PennantPark Investment has also entered into an Administration Agreement with PennantPark Investment Administration, LLC (the "Administrator" or "PennantPark Investment Administration") under which



PennantPark Investment Administration provides administrative services for PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment reimburses the Administrator for PennantPark Investment's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent, technology systems, insurance and PennantPark Investment's allocable portion of the costs of the compensation and related expenses for its chief compliance officer, chief financial officer and their respective staffs. The Administrator also provides on PennantPark Investment's behalf managerial assistance to portfolio companies to which PennantPark Investment is required to provide such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the statement of operations. For the three months ended December 31, 2007, the Investment Adviser was reimbursed approximately \$594,000 from the Company, including expenses it incurred on behalf of the Administrator, for services described above.

#### 4. ORGANIZATIONAL AND OFFERING EXPENSES

A portion of the net proceeds of the Company's initial public offering was used for organizational, offering and other expenses. Organizational expenses were treated as expenses incurred. Offering costs of \$21,309,375 were charged to net assets after the completion of the initial public offering on April 24, 2007.

#### 5. NET ASSET VALUE PER SHARE

On December 31, 2007, PennantPark Investment's total net assets and net asset value per share were \$254,221,308 and \$12.07, respectively.

#### 6. EARNINGS PER SHARE

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

	Three Months Ended December 31, 2007
Numerator for net decrease in net assets per share resulting from operations:	\$ (11,536,656)
Denominator for basic and diluted weighted average shares:	21,068,772
Basic and diluted net decrease in net assets per share resulting from operations:	\$ (0.54)

#### 7. INVESTMENTS

Purchases and sales/repayments of long-term investments for the three months ended December 31, 2007 totaled \$71.5 million and \$4.4 million, respectively.

Investments and cash equivalents consisted of the following:

	December 31, 2007		September 30, 2007	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 81,788,219	\$ 81,780,690	\$ 258,016,351	\$ 257,959,635
First lien	165,934,444	148,781,962	170,474,236	158,929,905
Second lien	126,948,281	113,499,500	75,260,488	67,748,750
Subordinated debt/corporate notes	82,529,980	73,304,219	62,397,146	57,318,268
Common stock	6,750,000	6,604,931	6,750,000	7,019,685
Total	<u>\$ 463,950,924</u>	<u>\$ 423,971,302</u>	<u>\$ 572,898,221</u>	<u>\$ 548,976,243</u>

The cost represents the original cost adjusted for the accretion of discounts and amortization of premiums on debt investments, if any.

The table below describes investments by industry classification and enumerates the percentage, by market value, of the total portfolio assets (excluding cash equivalents) in such industries as of December 31, 2007 and September 30, 2007.

<u>Industry Classification</u>	<u>December 31, 2007</u>	<u>September 30, 2007</u>
Other Media	13%	15%
Healthcare, Education & Childcare	10	4
Chemical, Plastics & Rubber	7	6
Energy/Utilities	7	0
Auto Sector	6	0
Consumer Products	6	8
Buildings and Real Estate	5	7
Business Services	5	7
Home and Office Furnishings, Housewares, & Durable Consumer Products	5	7
Leisure, Amusement, Motion Pictures, Entertainment	5	6
Broadcasting and Entertainment	4	5
Cable Television	4	5
Retail Store	4	5
Transportation	4	7
Printing and Publishing	3	3
Cargo Transport	2	2
Containers, Packaging and Glass	2	2
Media	2	2
Utilities	2	2
Manufacturing / Basic Industries	1	2
Oil and Gas	1	2
Telecommunications	1	2
Other	1	1
<b>Total Investments</b>	<u>100%</u>	<u>100%</u>

## 8. CASH EQUIVALENTS

Pending investment in longer-term portfolio holdings, PennantPark Investment may invest temporarily in U.S. Treasury Bills (of varying maturities), repurchase agreements, money markets or repo-like treasury securities. These temporary investments with maturities of 90 days or less will be deemed cash equivalents and are included in the Schedule of Investments. At the end of each fiscal quarter, PennantPark Investment typically takes proactive steps to preserve investment flexibility for the next quarter, which is dependent upon the composition of its total assets at quarter end. PennantPark Investment may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out its positions on a net cash basis after quarter-end or by utilizing repurchase agreements or other balance sheet transactions as it deems appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are marked-to-market consistent with PennantPark Investment's valuation policy.

## 9. REPURCHASE AGREEMENTS

PennantPark Investment may enter into repurchase agreements as part of its investment program. In these transactions, PennantPark Investment's custodian takes possession of collateral pledged by the counterparty. The

collateral is marked-to-market daily to ensure that the value, plus accrued interest, is at least equal to the repurchase price. In the event of default of the obligor to repurchase, PennantPark Investment will have the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the counterparty to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings. There were no repurchase agreements outstanding at December 31, 2007.

## 10. FINANCIAL HIGHLIGHTS

	Three months ended December 31, 2007	Period from January 11, 2007 (inception) through September 30, 2007
Net asset value, beginning of period	\$ 12.83	\$ 0.00
Net investment income	0.23	0.35
Net realized and unrealized loss	(0.77)	(1.15)
Net decrease in net assets resulting from operations	(0.54)	(0.80)
Dividends and distributions to stockholders <sup>(1)</sup>	(0.22)	(0.36)
Offering costs related to public offering	—	(1.01)
Issuance of common stock	—	15.00
Net asset value, end of period	\$ 12.07	\$ 12.83
Per share market value, end of period	\$ 10.02	\$ 13.40
Total return <sup>(2)*</sup>	(23.58)%	(8.29)%
Shares outstanding at end of period	21,068,772	21,068,772
Ratio/Supplemental Data:		
Ratio of operating expenses to average net assets <sup>(3)**</sup>	4.79%	3.76% <sup>(4)</sup>
Ratio of credit facility related expenses to average net assets**	1.65%	1.50% <sup>(4)</sup>
Total expenses to average net assets <sup>(3)**</sup>	6.44%	5.26% <sup>(4)</sup>
Ratio of net investment income to average net assets**	7.13%	5.96% <sup>(4)</sup>
Net assets at end of period	\$ 254,221,308	\$ 270,393,094
Average debt outstanding	\$ 59,038,043	\$ 817,610 <sup>(4)</sup>
Average debt per share	\$ 2.80	\$ 0.04 <sup>(4)</sup>
Portfolio turnover ratio**	5.5%	62.2%

\* Not annualized

\*\* Annualized

- (1) Dividends and distributions are 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, or GAAP
- (2) Total return is based on the change in market price per share during the period and takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.
- (3) For the three months ended December 31, 2007, the ratio of operating expenses before management fee waiver to average net assets was 5.10%, and the ratio of total expenses before management fee waiver to average net assets was 6.75%. For the period from April 24, 2007 through September 30, 2007, the ratio of operating expenses before management fee waiver to average net assets was 4.28%, and the ratio of total expenses before management fee waiver to average net assets was 5.78%.
- (4) Since inception of initial public offering on April 24, 2007.

## 11. CREDIT FACILITY

On June 25, 2007, PennantPark Investment entered into a Senior Secured Revolving Credit Agreement (the "Credit Agreement") among PennantPark Investment, various lenders and SunTrust Bank, as administrative agent for the lenders. SunTrust Robinson Humphrey Capital Markets acted as the joint lead arranger and book-runner, and Bear Stearns Corporate Lending Inc. acted as joint lead arranger and syndication agent. As of December 31, there was \$91.5 million in outstanding borrowings under the Credit Agreement, with an average interest rate of 5.90%.

Under the Credit Agreement, the lenders agreed to extend credit to PennantPark Investment in an initial aggregate principal or face amount not exceeding \$300,000,000 at any one time outstanding. The Credit Agreement 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 PennantPark Investment's portfolio. Pricing is set at 100 basis points over LIBOR.

The Credit Agreement contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintenance of a minimum stockholders' 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 Agreement, (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 stockholders as contemplated to maintain Regulated Investment Company 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 the Credit Agreement (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. See our Credit Agreement, Exhibit 10.5, to this Report (incorporated by reference), for the definitions of capitalized terms used by us relating to the Credit Agreement but not defined in this note. The Credit Agreement will be used to supplement our equity capital to make additional portfolio investments and for other general corporate purposes.

## 12. COMMITMENTS AND CONTINGENCIES

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

**PART C  
OTHER INFORMATION**

**Item 25. Financial statements and exhibits**

1. *Financial Statements*  
The Index to Financial Statements on page F-1 of this Registration Statement is hereby incorporated by reference.
2. *Exhibits*
  - (a) Articles of Incorporation of the Registrant (Incorporated by reference to Exhibit 99(a) to the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2/A (File No. 333-140092), filed on March 5, 2007).
  - (b) Amended and Restated By-Laws of the Registrant (Incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 10-K (File No. 814-00736), filed on December 13, 2007).
  - (d)(1)\* Specimen Stock Certificate.
  - (d)(2)\*\* Form of Subscription Certificate.
  - (d)(3)\*\* Form of Indenture.
  - (d)(4)\*\* Form of Subscription Agent Agreement.
  - (d)(5)\*\* Form of Warrant Agreement.
  - (e)\* Dividend Reinvestment Plan.
  - (g)\* Investment Management Agreement between the Registrant and PennantPark Investment Advisers, LLC.
  - (h)(1)\*\* Form of Underwriting Agreement for equity.
  - (h)(2)\*\* Form of Underwriting Agreement for debt.
  - (j)(1)\* Custodian Agreement between the Registrant and PFPC Trust Company.
  - (k)(1)\* Administration Agreement between the Registrant and PennantPark Investment Administration, LLC.
  - (k)(2)\* Stock Transfer Agency Agreement between the Registrant and American Stock Transfer and Trust Company.
  - (k)(3)\* Trademark License Agreement.
  - (k)(4) Senior Secured Revolving Credit Agreement between Registrant and various lenders (Incorporated by reference to Exhibit 99.2 to the Registrant's Report on Form 8-K (File No. 814-00736), filed on June 28, 2007).
  - (k)(5)\* Registration Rights Agreement among the Registrant and the purchasers in a private placement of 320,000 shares of common stock of the Registrant.
  - (l)\*\* Opinion and Consent of Venable LLP.
  - (n)(1)\* Consent of Independent Registered Public Accounting Firm.
  - (n)(2)\* Awareness Letter of Independent Registered Public Accounting Firm.
  - (r)(1) Joint Code of Ethics of the Registrant and PennantPark Investment Advisers, LLC (Incorporated by reference to Exhibit 14.1 to the Registrant's Report on Form 10-K (File No. 814-00736), filed on December 13, 2007).

\* Filed herewith.

\*\* To be filed by amendment.

**Item 26. Marketing arrangements**

The information contained under the heading “Plan of Distribution” in this Registration Statement is hereby incorporated by reference.

**Item 27. Other expenses of issuance and distribution**

The following table sets forth the estimated expenses to be incurred by the Registrant in connection with the offering described in this registration statement:

SEC registration fee	\$ 9,825
NASDAQ listing fee	**
FINRA filing fee	\$25,500
Printing (other than certificates)	**
Legal fees and expenses	**
Accounting fees and expenses	**
Miscellaneous fees and expenses	**
Total	\$35,325

\*\* To be filed by Amendment, as applicable.

All of the expense set forth above shall be borne by the Registrant.

**Item 28. Persons controlled by or under common control with the registrant**

Not Applicable.

**Item 29. Number of holders of shares**

As of March 18, 2008:

<u>Title of Class</u>	<u>Number of Record Holders</u>
Common Stock, \$0.001 par value	14

**Item 30. Indemnification**

The information contained under the heading “Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses” is incorporated herein by reference.

**Item 31. Business and other connections of Investment Adviser**

Neither the Investment Adviser nor any officer, director or partner of the Investment Adviser has been substantially engaged in any business, profession, vocation or employment since the inception of the Investment Adviser other than as set forth under the headings “Management” and “Business—Our Investment Adviser and Administrator” which are hereby incorporated by reference. Additional information regarding the Adviser and its officers and directors is set forth in its Form ADV, as filed with the Securities and Exchange Commission (SEC File No. 801-67622), and is incorporated herein by reference.

**Item 32. Location of accounts and records**

All accounts, books and other documents required to be maintained by Section 31(a) of the 1940 Act, and the rules thereunder are maintained at the offices of:

(1) the Registrant, PennantPark Investment Corporation, 590 Madison Avenue, 15th Floor, New York, NY 10022

- (2) the Transfer Agent, American Stock Transfer and Trust Company, 59 Maiden Lane, New York, NY 10038;
- (3) the Custodian, PFPC Trust Company, 8800 Tinicum Boulevard, 4th Floor, Philadelphia, PA 19153;
- (4) the Adviser, PennantPark Investment Advisers, LLC, 590 Madison Avenue, 15th Floor, New York, NY 10022

**Item 33. Management services**

Not Applicable.

**Item 34. Undertakings**

The Registrant hereby undertakes:

- (1) to suspend the offering of its units until it amends its prospectus if (a) subsequent to the effective date of its registration statement, the net asset value declines more than 10 percent from its net asset value as of the effective date of the Registration Statement or (b) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.
- (2) to file, during any period in which offers or sales are being made, a post-effective amendment to the registration statement:
  - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act;
  - (ii) to reflect in the prospectus any facts or events after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and
  - (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (3) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof; and
- (4) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and
- (5) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness; *provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.
- (6) that, for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such

purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

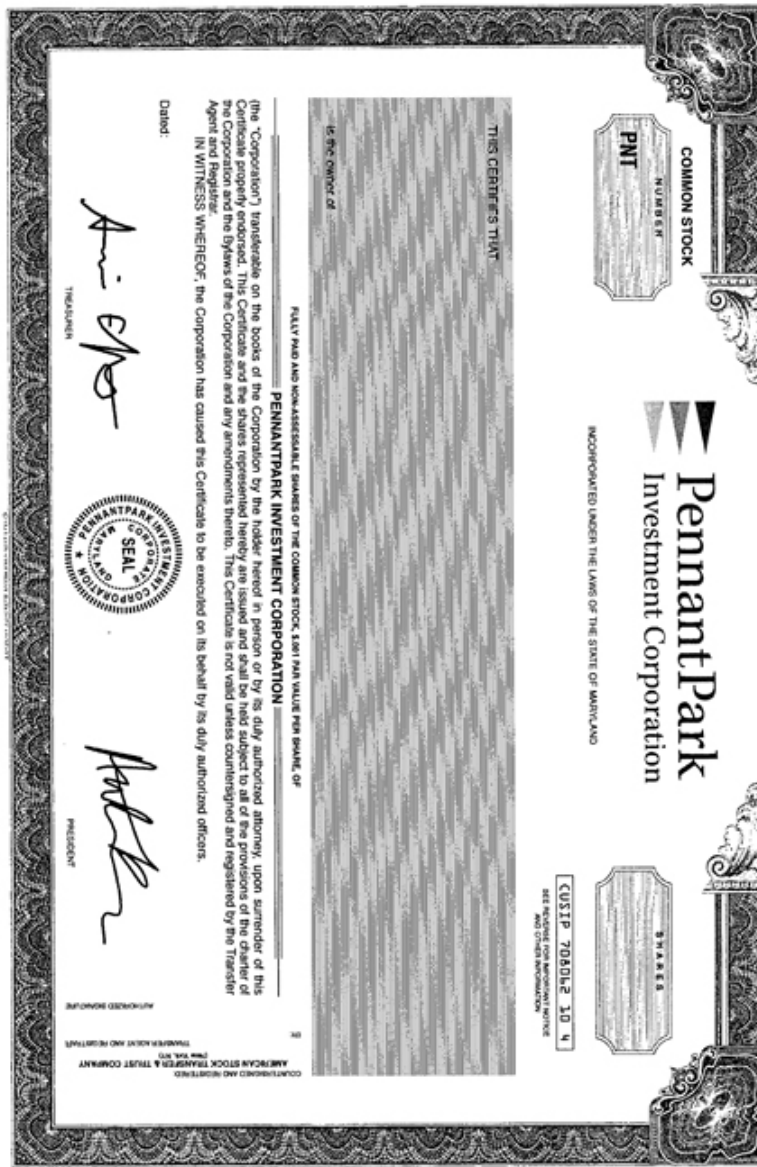
(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;

(ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.







AMERICAN BANK NOTE COMPANY  
 711 ARMSTRONG LANE  
 COLUMBIA, TENNESSEE 38401  
 (931) 388-3003

SALES: C. SHARKEY 302-731-7088  
 7 / LIVE JOBS / P / PENNANTPARK 26760 FC Lot 1

PRODUCTION COORDINATOR:  
 DENISE LITTLE 931-490-1706  
 PROOF OF: APRIL 17, 2007  
 PENNANTPARK INVESTMENT CORPORATION  
 TSB 26760 FC LOT 1  
 OPERATOR: AP  
 REV. 1

COLORS SELECTED FOR PRINTING: Logo prints in PMS 2955. PMS 2955 AT 50% AND 25%, Intaglio prints in SC-7 dark blue.

**COLOR:** This proof was printed from a digital file or artwork on a graphics quality, color laser printer. It is a good representation of the color as it will appear on the final product. However, it is not an exact color rendition, and the final printed product may appear slightly different from the proof due to the difference between the dyes and printing ink.

PLEASE INITIAL THE APPROPRIATE SELECTION FOR THIS PROOF: \_\_\_ OK AS IS \_\_\_ OK WITH CHANGES \_\_\_ MAKE CHANGES AND SEND ANOTHER PROOF

NOTE: TEXT RECEIVED BY MODEM OR E-MAIL IS NOT PROOFREAD WORD FOR WORD.

The Corporation will furnish to any stockholder, on request and without charge, a full statement of the information required by Section 2-211 (b) of the Corporations and Associations Article of the Annotated Code of Maryland with respect to the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption of the stock of each class which the Corporation has authority to issue and, if the Corporation is authorized to issue any preferred or special class in series, (i) the differences in the relative rights and preferences between the shares of each series to the extent set, and (ii) the authority of the Board of Directors to set such rights and preferences of subsequent series. The foregoing summary does not purport to be complete and is subject to and qualified in its entirety by reference to the charter of the Corporation, a copy of which will be sent without charge to each stockholder who so requests. Such request must be made to the Secretary of the Corporation at its principal office or to the Transfer Agent.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT -	_____ Custodian _____
TEN ENT	- as tenants by the entireties		(Cust) (Minor)
JT TEN	- as joint tenants with right of survivorship and not as tenants in common		under Uniform Gifts to Minors Act _____
			(State)

Additional abbreviations may also be used though not in the above list.

For value received, \_\_\_\_\_ hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

\_\_\_\_\_ shares of the Common Stock of the Corporation represented by this Certificate and does hereby irrevocably constitute and appoint

\_\_\_\_\_ Attorney to transfer the said shares of Common Stock on the books of the Corporation, with full power of substitution in the premises.

Dated \_\_\_\_\_

**NOTICE:** THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

**SIGNATURE(S) GUARANTEED:** THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

**KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, MUTILATED OR DESTROYED, THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.**

AMERICAN BANK NOTE COMPANY  
711 ARMSTRONG LANE  
COLUMBIA, TENNESSEE 38401  
(931)388-3003

SALES: C. SHARKEY 302-731-7088  
7 / LIVE JOBS / P / PENNANTPARK 26760 BK Lot 1

PRODUCTION COORDINATOR:  
DENISE LITTLE 931-490-1706  
PROOF OF: APRIL 17, 2007  
PENNANTPARK INVESTMENT CORPORATION  
TSB 26760 BK LOT 1  
OPERATOR: AP  
REV. 1

PLEASE INITIAL THE APPROPRIATE SELECTION FOR THIS PROOF: \_\_\_ OK AS IS \_\_\_ OK WITH CHANGES \_\_\_ MAKE CHANGES AND SEND ANOTHER PROOF

**DIVIDEND REINVESTMENT PLAN  
OF  
PENNANTPARK INVESTMENT CORPORATION**

PennantPark Investment Corporation, a Maryland corporation (the "Corporation"), hereby adopts the following plan (the "Plan") with respect to distributions declared by its Board of Directors on shares of its Common Stock:

1. Unless a stockholder specifically elects to receive cash as set forth below, all distributions hereafter declared by the Board of Directors, net of any applicable withholding tax, shall be payable in shares of the Common Stock of the Corporation, and no action shall be required on such stockholder's part to receive a distribution in stock.

2. Such distributions shall be payable on such date or dates as may be fixed from time to time by the Board of Directors to stockholders of record at the close of business on the record date established by the Board of Directors for the distribution involved.

3. With respect to each distribution pursuant to this Plan, the Board of Directors reserves the right, subject to the provisions of the Investment Company Act of 1940, to determine whether to issue newly-issued shares of its Common Stock or to make open market purchases of its shares for the account of Plan Participants (as hereinafter defined). However, if no determination is made otherwise, in the event the market price of the Corporation's Common Stock plus any applicable brokerage commission is equal to or exceeds the net asset value per share on the valuation date fixed by the Board of Directors for such distribution ("Valuation Date"), the Corporation will use newly-issued shares of its Common Stock valued at the then current market price. If no determination is made otherwise, in the event the net asset value per share of the Common Stock on the Valuation Date exceeds the market price of the Common Stock at such time plus any applicable brokerage commission, the Plan Administrator will purchase shares in the open market for the account of Participants. The market price per share of the Corporation's Common Stock on a particular date shall be the closing price for such shares on the NASDAQ Global Market on such date or, if no sale is reported for such date, at the average of their reported bid and asked prices. The net asset value per share of the Corporation's Common Stock on a particular date shall be as determined by or on behalf of the Corporation.

4. The Plan Administrator will set up an account for shares acquired pursuant to the Plan for each stockholder who has not so elected to receive distributions in cash (each a "Participant"). The Plan Administrator may hold each Participant's shares, together with the shares of other Participants, in non-certificated form in the Plan Administrator's name or that of its nominee. Upon request by a Participant, received in writing no later than three days prior to the record date, the Plan Administrator will, instead of crediting shares to and/or carrying shares in a Participant's account, issue a certificate registered in the Participant's name for the number of whole shares payable to the Participant and a check for any fractional share. The Plan Administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commission from the proceeds of the sale of any fractional share.

5. The Plan Administrator will confirm to each Participant each acquisition made pursuant to the Plan as soon as practicable but not later than 30 business days after the payable date. Although each Participant may from time to time have an undivided fractional interest (computed to three decimal places) in a share of Common Stock of the Corporation, no certificates for a fractional share will be issued. However, distributions on fractional shares will be credited to each Participant's account. In the event of termination of a Participant's account under the Plan, the Plan Administrator will adjust for any such undivided fractional interest in cash at the market value of the Corporation's shares at the time of termination.

6. The Plan Administrator will forward to each Participant any Corporation related proxy solicitation materials and each Corporation report or other communication to stockholders, and will vote any shares held by it under the Plan in accordance with the instructions set forth on proxies returned by Participants to the Corporation.

7. In the event that the Corporation makes available to its stockholders rights to purchase additional shares or other securities, the shares held by the Plan Administrator for each Participant under the Plan will be added to any other shares held by the Participant in certificated form in calculating the number of rights to be issued to the Participant. Transaction processing may be either curtailed or suspended until the completion of any stock dividend, stock split or corporate action.

8. The Plan Administrator's service fee, if any, and expenses for administering the Plan will be paid for by the Corporation. However, each Participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Administrator's open market purchases in connection with the reinvestment of distributions.

9. Each Participant may terminate his or its account under the Plan by so notifying the Plan Administrator via the Plan Administrator's website at [www.amstock.com](http://www.amstock.com), by filling out the transaction request form located at the bottom of the Participant's Statement and sending it to American Stock Transfer & Trust Company, PO Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the Plan Administrator's Interactive Voice Response System at 1-888-777-0324. Such termination will be effective immediately if the Participant's notice is received by the Plan Administrator at least three days prior to any distribution record date; otherwise, such termination will be effective only with respect to any subsequent distribution. The Plan may be terminated or amended by the Corporation upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any distribution by the Corporation. Upon any termination, the Plan Administrator will cause a certificate or certificates to be issued for the full shares held for the Participant under the Plan and a cash adjustment for any fractional share to be delivered to the Participant without charge to the Participant. If a Participant elects by his or its written notice to the

Plan Administrator in advance of termination to have the Plan Administrator sell part or all of his or its shares and remit the proceeds to the Participant, the Plan Administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commission from the proceeds.

10. These terms and conditions may be amended or supplemented by the Corporation at any time but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to each Participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment or supplement shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Plan Administrator receives written notice of the termination of his or its account under the Plan. Any such amendment may include an appointment by the Plan Administrator in its place and stead of a successor agent under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by the Plan Administrator under these terms and conditions. Upon any such appointment of any agent for the purpose of receiving distributions, the Corporation will be authorized to pay to such successor agent, for each Participant's account, all distributions payable on shares of the Corporation held in the Participant's name or under the Plan for retention or application by such successor agent as provided in these terms and conditions.

11. The Plan Administrator will at all times act in good faith and use its best efforts within reasonable limits to ensure its full and timely performance of all services to be performed by it with respect to purchases and sales of the Corporation's Common Stock under this Plan and to comply with applicable law, but assumes no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by the Plan Administrator's negligence, bad faith, or willful misconduct or that of its employees or agents.

12. These terms and conditions shall be governed by the laws of the State of New York.

June 11, 2007

**INVESTMENT ADVISORY MANAGEMENT AGREEMENT****BETWEEN****PENNANTPARK INVESTMENT CORPORATION****AND****PENNANTPARK INVESTMENT ADVISERS, LLC**

Agreement made this 17<sup>th</sup> day of April 2007, by and between PENNANTPARK INVESTMENT CORPORATION, a Maryland corporation (the "Corporation"), and PENNANTPARK INVESTMENT ADVISERS, LLC, a Delaware limited liability company (the "Adviser").

WHEREAS, the Corporation is a newly organized corporation that will operate as a closed-end management investment company;

WHEREAS, the Corporation has filed a registration statement on Form N-2 (the "Registration Statement") to register shares of its common stock for issuance in an initial public offering (the "Offering");

WHEREAS, prior to the effectiveness of the Registration Statement, the Corporation intends to file an election to be treated as a business development company under the Investment Company Act of 1940;

WHEREAS, prior to and in anticipation of the Offering, the Corporation intends to acquire interests in senior secured loans and other debt obligations that will comprise a portion of the Corporation's initial portfolio;

WHEREAS, the Adviser is a newly organized investment adviser; and

WHEREAS, the Corporation desires to retain the Adviser to furnish investment advisory services to the Corporation prior to the Offering on the terms and conditions hereinafter set forth, and the Adviser wishes to be retained to provide such services.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the parties hereby agree as follows:

1. Duties of the Adviser.

(a) The Corporation hereby employs the Adviser to act as the investment adviser to the Corporation and to manage the investment and reinvestment of the assets of the Corporation, subject to the supervision of the Board of Directors of the Corporation, for the period and upon the terms herein set forth, (i) in accordance with the investment objective, policies and restrictions that are set forth in the Registration Statement, dated April 18, 2007, as the same may

be amended from time to time, (ii) in accordance with the Investment Company Act and (iii) during the term of this Agreement in accordance with all other applicable federal and state laws, rules and regulations, and the Corporation's charter and by-laws. Without limiting the generality of the foregoing, the Adviser shall, during the term and subject to the provisions of this Agreement, (i) determine the composition of the portfolio of the Corporation, the nature and timing of the changes therein and the manner of implementing such changes; (ii) identify, evaluate and negotiate the structure of the investments made by the Corporation; (iii) close and monitor the Corporation's investments; determine the securities and other assets that the Corporation will purchase, retain, or sell; perform due diligence on prospective portfolio companies; and (vi) provide the Corporation with such other investment advisory, research and related services as the Corporation may, from time to time, reasonably require for the investment of its funds. The Adviser shall have the power and authority on behalf of the Corporation to effectuate its investment decisions for the Corporation, including the execution and delivery of all documents relating to the Corporation's investments and the placing of orders for other purchase or sale transactions on behalf of the Corporation. In the event that the Corporation determines to acquire debt financing, the Adviser will arrange for such financing on the Corporation's behalf, subject to the oversight and approval of the Corporation's Board of Directors. If it is necessary for the Adviser to make investments on behalf of the Corporation through a special purpose vehicle, the Adviser shall have authority to create or arrange for the creation of such special purpose vehicle and to make such investments through such special purpose vehicle in accordance with the Investment Company Act.

(b) The Adviser hereby accepts such employment and agrees during the term hereof to render the services described herein for the compensation provided herein.

(c) Subject to the requirements of the Investment Company Act, the Adviser is hereby authorized to enter into one or more sub-advisory agreements with other investment advisers (each, a "Sub-Adviser") pursuant to which the Adviser may obtain the services of the Sub-Adviser(s) to assist the Adviser in fulfilling its responsibilities hereunder. Specifically, the Adviser may retain a Sub-Adviser to recommend specific securities or other investments based upon the Corporation's investment objective and policies, and work, along with the Adviser, in structuring, negotiating, arranging or effecting the acquisition or disposition of such investments and monitoring investments on behalf of the Corporation, subject to the oversight of the Adviser and the Corporation. The Adviser, and not the Corporation, shall be responsible for any compensation payable to any Sub-Adviser. Any sub-advisory agreement entered into by the Adviser shall be in accordance with the requirements of the Investment Company Act and other applicable federal and state law.

(d) The Adviser shall for all purposes herein provided be deemed to be an independent contractor and, except as expressly provided or authorized herein, shall have no authority to act for or represent the Corporation in any way or otherwise be deemed an agent of the Corporation.



(e) The Adviser shall keep and preserve, in the manner and for the period that would be applicable to investment companies registered under the Investment Company Act any books and records relevant to the provision of its investment advisory services to the Corporation and shall specifically maintain all books and records with respect to the Corporation's portfolio transactions and shall render to the Corporation's Board of Directors such periodic and special reports as the Board may reasonably request. The Adviser agrees that all records that it maintains for the Corporation are the property of the Corporation and will surrender promptly to the Corporation any such records upon the Corporation's request, provided that the Adviser may retain a copy of such records.

2. Corporation's Responsibilities and Expenses Payable by the Corporation. All investment professionals of the Adviser and their respective staffs, when and to the extent engaged in providing investment advisory and management services hereunder, and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by the Adviser and not by the Corporation. The Corporation will bear all other costs and expenses of its operations and transactions, including (without limitation) those relating to: organization and offering; calculating the Corporation's net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by the Adviser payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the Corporation and in monitoring the Corporation's investments and performing due diligence (including related legal expenses) on its prospective portfolio companies; interest payable on debt, if any, incurred to finance the Corporation's investments and expenses related to unsuccessful portfolio acquisition efforts; offerings of the Corporation's common stock and other securities; investment advisory and management fees; administration fees payable under the Administration Agreement between the Corporation and PennantPark Investment Advisers, LLC (the "Administrator"), the Corporation's administrator; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments, including costs associated with meeting potential financial sponsors; transfer agent and custodial fees; federal and state registration fees; all costs of registration and listing the Corporation's shares on any securities exchange; federal, state and local taxes; independent Directors' fees and expenses; costs of preparing and filing reports or other documents required by the Securities and Exchange Commission; costs of any reports, proxy statements or other notices to stockholders, including printing costs; costs associated with individual or group stockholders; the Corporation's allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs; and all other expenses incurred by the Corporation or the Administrator in connection with administering the Corporation's business, including payments under the Administration Agreement between the Corporation and the Administrator based upon the Corporation's allocable portion of the Administrator's overhead in performing its obligations under the Administration Agreement, including rent and the allocable portion of the cost of the Corporation's chief compliance officer and chief financial officer and their respective staffs.

3. Compensation of the Adviser. The Corporation agrees to pay, and the Adviser agrees to accept, as compensation for the services provided by the Adviser hereunder, a base management fee (“Base Management Fee”) and an incentive fee (“Incentive Fee”) as hereinafter set forth. The Corporation shall make any payments due hereunder to the Adviser or to the Adviser’s designee as the Adviser may otherwise direct. To the extent permitted by applicable law, the Adviser may elect, or adopt a deferred compensation plan pursuant to which it may elect, to defer all or a portion of its fees hereunder for a specified period of time.

(a) The Base Management Fee shall be calculated at an annual rate of 2.00% of the Corporation’s gross assets. For services rendered during the period commencing from the closing of the Corporation’s offering of its common stock, pursuant to the Registration Statement, through and including the first six months of operations, the Base Management Fee will be payable monthly in arrears. For services rendered after such time, the Base Management Fee will be payable quarterly in arrears. For the first quarter of the Corporation’s operations, the Base Management Fee will be calculated based on the initial value of the Corporation’s gross assets. Subsequently, the Base Management Fee will be calculated based on the average value of the Corporation’s gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base Management Fees for any partial month or quarter will be appropriately pro rated.

(b) The Incentive Fee shall consist of two parts, as follows:

(i) One part will be calculated and payable quarterly in arrears based on the pre-Incentive Fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-Incentive Fee net investment income means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence and consulting fees and fees for providing significant managerial assistance or other fees that the Corporation receives from portfolio companies) earned by the Corporation during the calendar quarter, minus the Corporation’s operating expenses for the quarter (including the Base Management Fee and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the Incentive Fee). Pre-Incentive Fee net investment income does not include any realized capital gains or unrealized capital gains, losses or depreciation. Pre-Incentive Fee net investment income, expressed as a rate of return on the value of the Corporation’s net assets at the end of the immediately preceding calendar quarter, will be compared to a “hurdle rate” of 1.75% per quarter (7% annualized). The Corporation will pay the Adviser an Incentive Fee with respect to the Corporation’s pre-Incentive Fee net investment income in each calendar quarter as follows; (1) no Incentive Fee in any calendar quarter in which the Corporation’s pre-Incentive Fee net investment income does not exceed the hurdle rate; (2) 100% of the Corporation’s pre-Incentive Fee net investment income with respect to that portion of such pre-Incentive Fee net investment income, if any, that exceeds the hurdle rate but is less than

2.1875% in any calendar quarter; and (3) 20% of the amount of the Corporation's pre-Incentive Fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations will be appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

- (ii) The second part of the Incentive Fee (the "Capital Gains Fee") will be determined and payable in arrears as of the end of each calendar year (or upon termination of this Agreement as set forth below), commencing on December 31, 2007, and will equal 20.0% of the Corporation's realized capital gains for the calendar year computed net of all unrealized capital losses and unrealized capital depreciation at the end of such year; provided that the Incentive Fee determined as of December 31, 2007 will be calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all unrealized capital losses and unrealized capital depreciation from inception. In the event that this Agreement shall terminate as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying a Capital Gains Fee.

4. Covenants of the Adviser. The Adviser covenants that it is registered as an investment adviser under the Advisers Act. The Adviser agrees that its activities will at all times be in compliance in all material respects with all applicable federal and state laws governing its operations and investments.

5. Excess Brokerage Commissions. The Adviser is hereby authorized, to the fullest extent now or hereafter permitted by law, to cause the Corporation to pay a member of a national securities exchange, broker or dealer an amount of commission for effecting a securities transaction in excess of the amount of commission another member of such exchange, broker or dealer would have charged for effecting that transaction, if the Adviser determines in good faith, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities, that such amount of commission is reasonable in relation to the value of the brokerage and/or research services provided by such member, broker or dealer, viewed in terms of either that particular transaction or its overall responsibilities with respect to the Corporation's portfolio, and constitutes the best net results for the Corporation.

6. Limitations on the Employment of the Adviser. The services of the Adviser to the Corporation are not exclusive, and the Adviser may engage in any other business or render similar or different services to others including, without limitation, the direct or indirect sponsorship or management of other investment based accounts or commingled pools of capital, however structured, having investment objectives similar to those of the Corporation, so long as its services to the Corporation hereunder are not impaired thereby, and nothing in this Agreement

shall limit or restrict the right of any manager, partner, officer or employee of the Adviser to engage in any other business or to devote his or her time and attention in part to any other business, whether of a similar or dissimilar nature, or to receive any fees or compensation in connection therewith (including fees for serving as a director of, or providing consulting services to, one or more of the Corporation's portfolio companies, subject to applicable law). So long as this Agreement or any extension, renewal or amendment remains in effect, the Adviser shall be the only investment adviser for the Corporation, subject to the Adviser's right to enter into sub-advisory agreements. The Adviser assumes no responsibility under this Agreement other than to render the services called for hereunder. It is understood that directors, officers, employees and stockholders of the Corporation are or may become interested in the Adviser and its affiliates, as directors, officers, employees, partners, stockholders, members, managers or otherwise, and that the Adviser and directors, officers, employees, partners, stockholders, members and managers of the Adviser and its affiliates are or may become similarly interested in the Corporation as stockholders or otherwise.

7. Responsibility of Dual Directors, Officers and/or Employees. If any person who is a manager, partner, officer or employee of the Adviser or the Administrator is or becomes a director, officer and/or employee of the Corporation and acts as such in any business of the Corporation, then such manager, partner, officer and/or employee of the Adviser or the Administrator shall be deemed to be acting in such capacity solely for the Corporation, and not as a manager, partner, officer or employee of the Adviser or the Administrator or under the control or direction of the Adviser or the Administrator, even if paid by the Adviser or the Administrator.

8. Limitation of Liability of the Adviser; Indemnification. The Adviser (and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser, including without limitation its general partner and the Administrator) shall not be liable to the Corporation for any action taken or omitted to be taken by the Adviser in connection with the performance of any of its duties or obligations under this Agreement or otherwise as an investment adviser of the Corporation, except to the extent specified in Section 36(b) of the Investment Company Act concerning loss resulting from a breach of fiduciary duty (as the same is finally determined by judicial proceedings) with respect to the receipt of compensation for services, and the Corporation shall indemnify, defend and protect the Adviser (and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with the Adviser, including without limitation its general partner and the Administrator, each of whom shall be deemed a third party beneficiary hereof) (collectively, the "Indemnified Parties") and hold them harmless from and against all damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Corporation or its security holders) arising out of or otherwise based upon the performance of any of the Adviser's duties or obligations under this Agreement or otherwise as an investment adviser of the Corporation. Notwithstanding the preceding sentence of this Paragraph 8 to the contrary, nothing contained herein shall protect or

be deemed to protect the Indemnified Parties against or entitle or be deemed to entitle the Indemnified Parties to indemnification in respect of, any liability to the Corporation or its security holders to which the Indemnified Parties would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of the Adviser's duties or by reason of the reckless disregard of the Adviser's duties and obligations under this Agreement (as the same shall be determined in accordance with the Investment Company Act and any interpretations or guidance by the Securities and Exchange Commission or its staff thereunder).

9. Effectiveness, Duration and Termination of Agreement. This Agreement shall become effective as of the first date above written. This Agreement shall remain in effect for two years, and thereafter shall continue automatically for successive annual periods, provided that such continuance is specifically approved at least annually by (a) the vote of the Corporation's Board of Directors, or by the vote of a majority of the outstanding voting securities of the Corporation and (b) the vote of a majority of the Corporation's Directors who are not parties to this Agreement or "interested persons" (as such term is defined in Section 2(a)(19) of the Investment Company Act) of any such party, in accordance with the requirements of the Investment Company Act. This Agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice, by the vote of a majority of the outstanding voting securities of the Corporation, or by the vote of the Corporation's Directors or by the Adviser. This Agreement will automatically terminate in the event of its "assignment" (as such term is defined for purposes of Section 15(a)(4) of the Investment Company Act). The provisions of Paragraph 8 of this Agreement shall remain in full force and effect, and the Adviser shall remain entitled to the benefits thereof, notwithstanding any termination of this Agreement. Further, notwithstanding the termination or expiration of this Agreement as aforesaid, the Adviser shall be entitled to any amounts owed under Section 3 through the date of termination or expiration and Section 8 shall continue in force and effect and apply to the Adviser and its representatives as and to the extent applicable.

10. Notices. Any notice under this Agreement shall be given in writing, addressed and delivered or mailed, postage prepaid, to the other party at its principal office.

11. Amendments. This Agreement may be amended by mutual consent, but the consent of the Corporation must be obtained in conformity with the requirements of the Investment Company Act.

12. Entire Agreement; Governing Law. This Agreement contains the entire agreement of the parties and supersedes all prior agreements, understandings and arrangements with respect to the subject matter hereof. This Agreement shall be construed in accordance with the laws of the State of New York and the applicable provisions of the Investment Company Act. To the extent the applicable laws of the State of New York, or any of the provisions herein, conflict with the provisions of the Investment Company Act, the latter shall control.

*[The remainder of this page intentionally left blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date above written.

**PENNANTPARK INVESTMENT CORPORATION**

By: /s/ Arthur Penn  
Name: Arthur Penn  
Title:

**PENNANTPARK INVESTMENT ADVISERS, LLC**

By: /s/ Arthur Penn  
Name: Arthur Penn  
Title:

**CUSTODIAN SERVICES AGREEMENT**

THIS AGREEMENT is made as of April 12, 2007 by and between PFPC TRUST COMPANY, a limited purpose trust company incorporated under the laws of Delaware ("PFPC Trust") and PENNANTPARK INVESTMENT CORPORATION, a Maryland corporation (the "Fund").

## WITNESSETH:

WHEREAS, the Company is a closed-end company that intends to file an election to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"); and

WHEREAS, the Fund wishes to retain PFPC Trust to provide custodian services, and PFPC Trust wishes to furnish custodian services, either directly or through an affiliate or affiliates, as more fully described herein.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Definitions.** As used in this Agreement:

- (a) "1933 Act" means the Securities Act of 1933, as amended.
- (b) "1934 Act" means the Securities Exchange Act of 1934, as amended.
- (c) "Authorized Person" means any officer of the Fund and any other person authorized by the Fund to give Oral or Written Instructions on behalf of the Fund. An Authorized Person's scope of authority may be limited by setting forth such limitation in a written document signed by both parties hereto.

- (d) “Book-Entry System” means the Federal Reserve Treasury book-entry system for United States and federal agency securities, its successor or successors, and its nominee or nominees and any book-entry system registered with the SEC under the 1934 Act.
- (e) “Change of Control” means a change in ownership or control (not including transactions between wholly-owned direct or indirect subsidiaries of a common parent) of 25% or more of the beneficial ownership of the shares of common stock or shares of beneficial interest of an entity or its parent(s).
- (f) “Oral Instructions” mean oral instructions received by PFPC Trust from an Authorized Person or from a person reasonably believed by PFPC Trust to be an Authorized Person. PFPC Trust may, in its sole discretion in each separate instance, consider and rely upon instructions it receives from an Authorized Person via electronic mail as Oral Instructions.
- (g) “PFPC Trust” means PFPC Trust Company or a subsidiary or affiliate of PFPC Trust Company.
- (h) “SEC” means the Securities and Exchange Commission.
- (i) “Securities Laws” mean the 1933 Act, the 1934 Act and the 1940 Act.
- (j) “Shares” mean the shares of beneficial interest of any series or class of the Fund.
- (k) “Property” means:
  - (i) any and all securities and other investment items which the Fund may from time to time deposit, or cause to be deposited, with PFPC Trust or which PFPC Trust may from time to time hold for the Fund;
  - (ii) all income in respect of any of such securities or other investment items;
  - (iii) all proceeds of the sale of any of such securities or investment items; and



(iv) all proceeds of the sale of securities issued by the Fund, which are received by PFPC Trust from time to time, from or on behalf of the Fund.

(l) **“Written Instructions”** mean (i) written instructions signed by two Authorized Persons (or persons reasonably believed by PFPC Trust to be Authorized Persons) and received by PFPC Trust or (ii) trade instructions transmitted by means of an electronic transaction reporting system which requires the use of a password or other authorized identifier in order to gain access. The instructions may be delivered electronically (with respect to sub-item (ii) above) or by hand, mail or facsimile sending device.

2. **Appointment.** The Fund hereby appoints PFPC Trust to provide custodian services to the Fund as set forth herein and PFPC Trust accepts such appointment and agrees to furnish such services. PFPC Trust shall be under no duty to take any action hereunder on behalf of the Fund except as specifically set forth herein or as may be specifically agreed to by PFPC Trust and the Fund in a written amendment hereto.

3. **Instructions.**

(a) Unless otherwise provided in this Agreement, PFPC Trust shall act only upon Oral Instructions or Written Instructions.

(b) PFPC Trust shall be entitled to rely upon any Oral Instruction or Written Instruction it receives pursuant to this Agreement. PFPC Trust may assume that any Oral Instructions or Written Instructions received hereunder are not in any way inconsistent with the provisions of organizational documents of the Fund or of any vote, resolution or proceeding of the Fund’s Board of Directors or of the Fund’s shareholders, unless and until PFPC Trust receives Written Instructions to the contrary.

- (c) The Fund agrees to forward to PFPC Trust Written Instructions confirming Oral Instructions (except where such Oral Instructions are given by PFPC Trust or its affiliates) so that PFPC Trust receives the Written Instructions by the close of business on the same day that such Oral Instructions are received. The fact that such confirming Written Instructions are not received by PFPC Trust or differ from the Oral Instructions shall in no way invalidate the transactions or enforceability of the transactions authorized by the Oral Instructions or PFPC Trust's ability to rely upon such Oral Instructions.

**4. Right to Receive Advice.**

- (a) Advice of the Fund. If PFPC Trust is in doubt as to any action it should or should not take, PFPC Trust may request directions or advice, including Oral Instructions or Written Instructions, from the Fund.
- (b) Advice of Counsel. If PFPC Trust shall be in doubt as to any question of law pertaining to any action it should or should not take, PFPC Trust may request advice from counsel of its own choosing (who may be counsel for the Fund, the Fund's investment adviser or PFPC Trust, at the option of PFPC Trust).
- (c) Conflicting Advice. In the event of a conflict between directions or advice or Oral Instructions or Written Instructions PFPC Trust receives from the Fund, and the advice it receives from counsel, PFPC Trust shall be entitled to rely upon and follow the advice of counsel.
- (d) No Obligation to Seek Advice. Nothing in this section shall be construed so as to impose an obligation upon PFPC Trust (i) to seek directions or advice or Oral Instructions or Written Instructions or (ii) to act in accordance with such directions or advice or Oral Instructions or Written Instructions.

5. **Records; Visits.** The books and records pertaining to the Fund, which are in the possession or under the control of PFPC Trust, shall be the property of the Fund. The Fund and Authorized Persons shall have access to such books and records at all times during PFPC Trust's normal business hours. Upon the reasonable request of the Fund, copies of any such books and records shall be provided by PFPC Trust to the Fund or to an authorized representative of the Fund, at the Fund's expense.
  
6. **Confidentiality.** Each party shall keep confidential any information relating to the other party's business ("Confidential Information"). Confidential Information shall include (a) any data or information that is competitively sensitive material, and not generally known to the public, including, but not limited to, information about product plans, marketing strategies, finances, operations, customer relationships, customer profiles, customer lists, sales estimates, business plans, and internal performance results relating to the past, present or future business activities of the Fund or PFPC Trust, their respective subsidiaries and affiliated companies; (b) any scientific or technical information, design, process, procedure, formula, or improvement that is commercially valuable and secret in the sense that its confidentiality affords the Fund or PFPC Trust a competitive advantage over its competitors; (c) all confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, know-how, and trade secrets, whether or not patentable or copyrightable; and (d) anything designated as confidential. Notwithstanding the foregoing, information shall not be Confidential Information and shall not be subject to such confidentiality

obligations if: (a) it is already known to the receiving party at the time it is obtained; (b) it is or becomes publicly known or available through no wrongful act of the receiving party; (c) it is rightfully received from a third party who, to the best of the receiving party's knowledge, is not under a duty of confidentiality; (d) it is released by the protected party to a third party without restriction; (e) it is requested or required to be disclosed by the receiving party pursuant to a court order, subpoena, governmental or regulatory agency request or law; (f) release of such information by PFPC Trust is necessary or desirable in connection with the provision of services under this Agreement; (g) it is Fund information provided by PFPC Trust in connection with an independent third party compliance or other review; (h) it is relevant to the defense of any claim or cause of action asserted against the receiving party; or (i) it has been or is independently developed or obtained by the receiving party. The provisions of this Section 6 shall survive termination of this Agreement for a period of three (3) years after such termination.

7. **Cooperation with Accountants.** PFPC Trust shall cooperate with the Fund's independent public accountants and shall take all reasonable action to make any requested information available to such accountants as reasonably requested by the Fund.
8. **PFPC System.** PFPC Trust shall retain title to and ownership of any and all data bases, computer programs, screen formats, report formats, interactive design techniques, derivative works, inventions, discoveries, patentable or copyrightable matters, concepts, expertise, patents, copyrights, trade secrets, and other related legal rights utilized by PFPC Trust in connection with the services provided by PFPC Trust to the Fund.
9. **Disaster Recovery.** PFPC Trust shall enter into and shall maintain in effect with appropriate parties one or more agreements making reasonable provisions for emergency

use of electronic data processing equipment to the extent appropriate equipment is available. In the event of equipment failures, PFPC Trust shall, at no additional expense to the Fund, take reasonable steps to minimize service interruptions. PFPC Trust shall have no liability with respect to the loss of data or service interruptions caused by equipment failure provided such loss or interruption is not caused by PFPC Trust's own willful misfeasance, bad faith, gross negligence or reckless disregard of its duties or obligations under this Agreement.

**10. Compensation.**

- (a) As compensation for custody services rendered by PFPC Trust pursuant to this Agreement, the Fund will pay to PFPC Trust a fee or fees as may be agreed to in writing from time to time by the Fund and PFPC Trust. The Fund acknowledges that PFPC Trust may receive float benefits in connection with maintaining certain accounts required to provide services under this Agreement.
- (b) The undersigned hereby represents and warrants to PFPC Trust that (i) the terms of this Agreement, (ii) the fees and expenses associated with this Agreement, and (iii) any benefits accruing to PFPC Trust or to the adviser or sponsor to the Fund in connection with this Agreement, including but not limited to any fee waivers, conversion cost reimbursements, up front payments, signing payments or periodic payments made or to be made by PFPC Trust to such adviser or sponsor or any affiliate of the Fund relating to this Agreement have been fully disclosed to the Board of Directors of the Fund and that, if required by applicable law, such Board of Directors/Trustees has approved or will approve the terms of this Agreement, any such fees and expenses, and any such benefits.

**11. Standard of Care/Limitations of Liability.**

- (a) Subject to the terms of this Section 11, PFPC shall be liable to the Fund (or any person or entity claiming through the Fund) for damages only to the extent caused by PFPC Trust's own willful misfeasance, bad faith, gross negligence or reckless disregard of its duties under this Agreement ("Standard of Care").
- (b) Notwithstanding anything in this Agreement to the contrary (other than as specifically provided in Section 13(h)(ii)(B)(4) and Section 13(h)(iii)(A) of this Agreement), the Fund shall be responsible for all filings, tax returns and reports on any transactions undertaken pursuant to this Agreement, or in respect of the Property or any collections undertaken pursuant to this Agreement, which may be requested by any relevant authority. In addition, the Fund shall be responsible for the payment of all taxes and similar items (including without limitation penalties and interest related thereto).
- (c) PFPC Trust's liability to the Fund and any person or entity claiming through the Fund for any loss, claim, suit, controversy, breach or damage of any nature whatsoever (including but not limited to those arising out of or related to this Agreement) and regardless of the form of action or legal theory ("Loss") shall not exceed the fees received by PFPC Trust for services provided hereunder during the twelve (12) months immediately prior to the date of such Loss.
- (d) PFPC Trust shall not be liable for damages (including without limitation damages caused by delays, failure, errors, interruption or loss of data) occurring directly or indirectly by reason of circumstances beyond its reasonable control, including without limitation acts of God; action or inaction of civil or military authority;

national emergencies; public enemy; war; terrorism; riot; fire; flood; catastrophe; sabotage; epidemics; labor disputes; civil commotion; interruption, loss or malfunction of utilities, transportation, computer or communications capabilities; insurrection; elements of nature; non-performance by a third party; failure of the mails; or functions or malfunctions of the internet, firewalls, encryption systems or security devices caused by any of the above.

- (e) PFPC Trust shall not be under any duty or obligation to inquire into and shall not be liable for the validity or invalidity, authority or lack thereof, or truthfulness or accuracy or lack thereof, of any instruction, direction, notice, instrument or other information which PFPC Trust reasonably believes to be genuine. PFPC Trust shall not be liable for any damages that are caused by actions or omissions taken by PFPC Trust in accordance with Oral Instructions or Written Instructions or advice of counsel. PFPC Trust shall not be liable for any damages arising out of any action or omission to act by any prior service provider of the Fund or for any failure to discover any such error or omission.
- (f) Neither PFPC Trust nor its affiliates shall be liable for any consequential, incidental, exemplary, punitive, special or indirect damages, whether or not the likelihood of such damages was known by PFPC Trust or its affiliates.
- (g) Each party shall have a duty to mitigate damages for which the other party may become responsible.
- (h) This Section 11 shall survive termination of this Agreement.

- 12. Indemnification.** Absent PFPC Trust's failure to meet its Standard of Care (defined in Section 11 above), the Fund agrees to indemnify, defend and hold harmless PFPC Trust and its affiliates and their respective directors, trustees, officers, agents and employees from all claims, suits, actions, damages, losses, liabilities, obligations, costs and reasonable expenses (including attorneys' fees and court costs, travel costs and other reasonable out-of-pocket costs related to dispute resolution) arising directly or indirectly from any of the following: (a) any action or omission to act by any prior service provider of the Fund; and (b) any action taken or omitted to be taken by PFPC Trust in connection with the provision of services to the Fund.

This Section 12 shall survive termination of this Agreement.

**13. Description of Services.**

- (a) Delivery of the Property. The Fund will deliver or arrange for the delivery to PFPC Trust of all the Property owned by the Fund, including cash received as a result of the distribution of Shares, during the term of this Agreement. PFPC Trust will not be responsible for any assets until actual receipt.
- (b) Receipt and Disbursement of Money. PFPC Trust, acting upon Written Instructions, shall open and maintain a separate account ("the Account") in the Fund's name. PFPC Trust shall maintain in the Account of the Fund all cash and other assets received from or for the Fund specifically designated to such Account.

PFPC Trust shall make cash payments from or for the Account of the Fund only for:

- (i) purchases of securities in the name of the Fund, Pennant SPV Company, PFPC Trust, PFPC Trust's nominee or a sub-custodian or nominee thereof as provided in sub-section (j) and for which PFPC Trust has received a copy of the broker's or dealer's confirmation or payee's invoice, as appropriate;



- (ii) redemption of Shares of the Fund upon receipt of Written Instructions;
- (iii) payment of, subject to Written Instructions, interest, taxes (provided that tax which PFPC Trust considers is required to be deducted or withheld "at source" will be governed by Section 13(h)(iii)(B) of this Agreement), administration, accounting, distribution, advisory or management fees and similar expenses which are to be borne by the Fund;
- (iv) payment to, subject to receipt of Written Instructions, the Fund's transfer agent, as agent for the shareholders, of an amount equal to the amount of dividends and distributions stated in the Written Instructions to be distributed in cash by the transfer agent to shareholders, or, in lieu of paying the Fund's transfer agent, PFPC Trust may arrange for the direct payment of cash dividends and distributions to shareholders in accordance with procedures mutually agreed upon from time to time by and among the Fund, PFPC Trust and the Fund's transfer agent;
- (v) payments, upon receipt of Written Instructions, in connection with the conversion, exchange or surrender of securities owned or subscribed to by the Fund and held pursuant to this Agreement or delivered to PFPC Trust;
- (vi) payments of the amounts of dividends received with respect to securities sold short;
- (vii) payments to PFPC Trust for its services hereunder;
- (viii) payments to a sub-custodian pursuant to provisions in sub-section (c) of this Section; and
- (ix) other payments, upon Written Instructions.

PFPC Trust is hereby authorized to endorse and collect all checks, drafts or other orders for the payment of money received as custodian for the Fund.

(c) Receipt of Securities; Sub-custodians.

- (i) PFPC Trust shall hold all securities received by it for the Accounts in a separate account that physically segregates such securities from those of any other persons, firms or corporations, except for securities held in a Book-Entry System or through a sub-custodian or depository. All such securities shall be held or disposed of only upon Written Instructions or otherwise pursuant to the terms of this Agreement. PFPC Trust shall have no power or authority to assign, hypothecate, pledge or otherwise dispose

of any such securities or other investments, except upon the express terms of this Agreement or upon Written Instructions authorizing the transaction. In no case may any member of the Fund's Board of Directors or any officer, employee or agent of the Fund withdraw any securities upon their mere receipt.

At PFPC Trust's own expense and for its own convenience, PFPC Trust may enter into sub-custodian agreements with other banks or trust companies to perform duties described in this sub-section (c) with respect to domestic assets. Such bank or trust company shall have aggregate capital, surplus and undivided profits, according to its last published report, of at least one million dollars (\$1,000,000), if it is a subsidiary or affiliate of PFPC Trust, or at least twenty million dollars (\$20,000,000) if such bank or trust company is not a subsidiary or affiliate of PFPC Trust. In addition, such bank or trust company must be qualified to act as custodian and agree to comply with the relevant provisions of applicable rules and regulations. Any such arrangement will not be entered into without prior written notice to the Fund (or as otherwise provided in the 1940 Act).

In addition, PFPC Trust may enter into arrangements with sub-custodians, in accordance with the 1940 Act, with respect to services regarding foreign assets. Any such arrangement will not be entered into without prior written notice to the Fund (or as otherwise provided in the 1940 Act).

Sub-custodians utilized by PFPC Trust may be subsidiaries or affiliates of PFPC Trust, and such entities will be compensated for their services at such rates as are agreed between the entity and PFPC Trust. PFPC Trust shall remain responsible for the acts and omissions of any sub-custodian chosen by PFPC Trust under the terms of this sub-section (c) to the same extent that PFPC Trust is responsible for its own acts and omissions under this Agreement.

(d) Transactions Requiring Instructions. Upon receipt of Oral Instructions or Written Instructions and not otherwise, PFPC Trust shall:

- (i) deliver any securities held for the Fund against the receipt of payment for the sale of such securities or otherwise in accordance with standard market practice;
- (ii) execute and deliver to such persons as may be designated in such Oral Instructions or Written Instructions, proxies, consents, authorizations, and any other instruments received by PFPC Trust as custodian whereby the authority of the Fund as owner of any securities may be exercised;

- (iii) deliver any securities to the issuer thereof, or its agent, when such securities are called, redeemed, retired or otherwise become payable at the option of the holder; provided that, in any such case, the cash or other consideration is to be delivered to PFPC Trust;
- (iv) deliver any securities held for the Fund against receipt of other securities or cash issued or paid in connection with the liquidation, reorganization, refinancing, tender offer, merger, consolidation or recapitalization of any corporation or other entity, or the exercise of any conversion privilege;
- (v) deliver any securities held for the Fund to any protective committee, reorganization committee or other person in connection with the reorganization, refinancing, merger, consolidation, recapitalization or sale of assets of any corporation or other entity, and receive and hold under the terms of this Agreement such certificates of deposit, interim receipts or other instruments or documents as may be issued to it to evidence such delivery;
- (vi) make such transfer or exchanges of the assets of the Fund and take such other steps as shall be stated in said Oral Instructions or Written Instructions to be for the purpose of effectuating a duly authorized plan of liquidation, reorganization, merger, consolidation or recapitalization of the Fund;
- (vii) release securities belonging to the Fund to any bank or trust company for the purpose of a pledge or hypothecation to secure any loan incurred by the Fund; provided, however, that securities shall be released only upon payment to PFPC Trust of the monies borrowed, except that in cases where additional collateral is required to secure a borrowing already made subject to proper prior authorization, further securities may be released for that purpose; and repay such loan upon redelivery to it of the securities pledged or hypothecated therefor and upon surrender of the note or notes evidencing the loan;
- (viii) release and deliver securities owned by the Fund in connection with any repurchase agreement entered into by the Fund, but only on receipt of payment therefor; and pay out monies of the Fund in connection with such repurchase agreements, but only upon the delivery of the securities;
- (ix) release and deliver or exchange securities owned by the Fund in connection with any conversion of such securities, pursuant to their terms, into other securities;
- (x) release and deliver securities to a broker in connection with the broker's custody of margin collateral relating to futures and options transactions;

- (xi) release and deliver securities owned by the Fund for the purpose of redeeming in kind Shares of the Fund upon delivery thereof to PFPC Trust; and
  - (xii) release and deliver or exchange securities owned by the Fund for other purposes.
- (e) Use of Book-Entry System or Other Depository. PFPC Trust will deposit in Book-Entry Systems and other depositories all securities belonging to the Fund eligible for deposit therein and will utilize Book-Entry Systems and other depositories to the extent possible in connection with settlements of purchases and sales of securities by the Fund, and deliveries and returns of securities loaned, subject to repurchase agreements or used as collateral in connection with borrowings. PFPC Trust shall continue to perform such duties until it receives Written Instructions or Oral Instructions authorizing contrary actions. Notwithstanding anything in this Agreement to the contrary, PFPC Trust's use of a Book-Entry System shall comply with the requirements of Rule 17f-4 under the 1940 Act.

PFPC Trust shall administer a Book-Entry System or other depository as follows:

- (i) With respect to securities of the Fund which are maintained in a Book-Entry System or another depository, the records of PFPC Trust shall identify by book-entry or otherwise those securities as belonging to the Fund.
- (ii) Assets of the Fund deposited in a Book-Entry System or another depository will (to the extent consistent with applicable law and standard practice) at all times be segregated from any assets and cash controlled by PFPC Trust in other than a fiduciary or custodian capacity but may be commingled with other assets held in such capacities.

PFPC Trust will provide the Fund with such reports on its own system of internal control as the Fund may reasonably request from time to time.

- (f) Registration of Securities. All securities held for the Fund which are issued or issuable only in bearer form, except such securities maintained in the Book-Entry System or in another depository, shall be held by PFPC Trust in bearer form; all other securities maintained for the Fund may be registered in the name of the Fund, PFPC Trust, a Book-Entry System, another depository, a sub-custodian, or any duly appointed nominee of the Fund, PFPC Trust, a Book-Entry System, a depository or a sub-custodian. The Fund agrees to furnish to PFPC Trust appropriate instruments to enable PFPC Trust to maintain or deliver in proper form for transfer, or to register in the name of its nominee or in the name of a Book-Entry System or in the name of another appropriate entity, any securities which it may maintain pursuant to this Agreement. With respect to uncertificated securities which are registered in the name of the Fund (or a nominee thereof), PFPC Trust will reflect such securities on its records based upon the holdings information provided to it by the issuer of such securities, but notwithstanding anything in this Agreement to the contrary PFPC Trust shall not be obligated to safekeep such securities or to perform other duties with respect to such securities other than to make payment for the purchase of such securities upon receipt of Oral or Written Instructions, accept in sale proceeds received by PFPC Trust upon the sale of such securities of which PFPC Trust is informed pursuant to Oral or Written Instructions, and accept in other distributions received by PFPC Trust with respect to such securities or reflect on its records any reinvested distributions with respect to such securities of which it is informed by the issuer of the securities.

- (g) Voting. Neither PFPC Trust nor its nominee shall vote any of the securities held pursuant to this Agreement by or for the account of the Fund, except in accordance with Written Instructions. PFPC Trust, directly or through the use of another entity, shall execute in blank and promptly deliver all notices, proxies and proxy soliciting materials received by PFPC Trust as custodian of the Property to the registered holder of such securities. If the registered holder is not the Fund, then Written Instructions or Oral Instructions must designate the person who owns such securities.
- (h) Transactions Not Requiring Instructions. Notwithstanding anything in this Agreement requiring instructions in order to take a particular action, in the absence of a contrary Written Instruction PFPC Trust is authorized to take the following actions without the need for instructions:
- (i) Collection of Income and Other Payments.
- (A) collect and receive for the account of the Fund, all income, dividends, distributions, coupons, option premiums, other payments and similar items, included or to be included in the Property, and, in addition, promptly advise the Fund of such receipt and credit such income to the Fund's custodian account;
  - (B) endorse and deposit for collection, in the name of the Fund, checks, drafts, or other orders for the payment of money;
  - (C) receive and hold for the account of the Fund all securities received as a distribution on the Fund's securities as a result of a stock dividend, share split-up or reorganization, recapitalization, readjustment or other rearrangement or distribution of rights or similar securities issued with respect to any securities belonging to the Fund and held by PFPC Trust hereunder;

- (D) present for payment and collect the amount payable upon all securities which may mature or be called, redeemed, retired or otherwise become payable (on a mandatory basis) on the date such securities become payable; and
  - (E) take any action which may be necessary and proper in connection with the collection and receipt of such income and other payments and the endorsement for collection of checks, drafts, and other negotiable instruments.
- (ii) Miscellaneous Transactions.
- (A) PFPC Trust is authorized to deliver or cause to be delivered Property against payment or other consideration or written receipt therefor in the following cases:
    - (1) for examination by a broker or dealer selling for the account of the Fund in accordance with street delivery custom;
    - (2) for the exchange of interim receipts or temporary securities for definitive securities; and
    - (3) for transfer of securities into the name of the Fund or PFPC Trust or a sub-custodian or a nominee of one of the foregoing, or for exchange of securities for a different number of bonds, certificates, or other evidence, representing the same aggregate face amount or number of units bearing the same interest rate, maturity date and call provisions, if any; provided that, in any such case, the new securities are to be delivered to PFPC Trust.
  - (B) PFPC Trust shall:
    - (1) pay all income items held by it which call for payment upon presentation and hold the cash received by it upon such payment for the account of the Fund;
    - (2) collect interest and cash dividends received, with notice to the Fund, to the account of the Fund;
    - (3) hold for the account of the Fund all stock dividends, rights and similar securities issued with respect to any securities held by PFPC Trust hereunder; and

- (4) subject to receipt of such documentation and information as PFPC Trust may request, execute as agent on behalf of the Fund all necessary ownership certificates required by a national governmental taxing authority or under the laws of any U.S. state now or hereafter in effect, inserting the Fund's name on such certificate as the owner of the securities covered thereby, to the extent it may lawfully do so.

(iii) Other Matters.

- (A) Subject to receipt of such documentation and information as PFPC Trust may request, PFPC Trust will, in such jurisdictions as PFPC Trust may agree from time to time, seek to reclaim or obtain a reduction with respect to any withholdings or other taxes relating to assets maintained hereunder (provided that PFPC Trust will not be liable for failure to obtain any particular relief in a particular jurisdiction); and
- (B) PFPC Trust is authorized to deduct or withhold any sum in respect of tax which PFPC Trust considers is required to be deducted or withheld "at source" by any relevant law or practice.

(i) Segregated Accounts.

- (i) PFPC Trust shall establish and maintain segregated accounts on its records for and on behalf of the Fund. Such accounts may be used to transfer cash and securities, including securities in a Book-Entry System or other depository:
  - (A) for the purposes of compliance by the Fund with the procedures required by a securities or option exchange, providing such procedures comply with the 1940 Act and any releases of the SEC relating to the maintenance of segregated accounts by registered investment companies; and
  - (B) upon receipt of Written Instructions, for other purposes.
- (ii) PFPC Trust shall arrange for the establishment of IRA custodian accounts for such shareholders holding Shares through IRA accounts, in accordance with the Fund's prospectuses, the Internal Revenue Code of 1986, as amended (including regulations promulgated thereunder), and with such other procedures as are mutually agreed upon from time to time by and among the Fund, PFPC Trust and the Fund's transfer agent.



- (j) Purchases of Securities. PFPC Trust shall settle purchased securities upon receipt of Oral Instructions or Written Instructions that specify:
- (i) the name of the issuer and the title of the securities, including CUSIP number if applicable;
  - (ii) the number of shares or the principal amount purchased and accrued interest, if any;
  - (iii) the date of purchase and settlement;
  - (iv) the purchase price per unit;
  - (v) the total amount payable upon such purchase; and
  - (vi) the name of the person from whom or the broker through whom the purchase was made. PFPC Trust shall upon receipt of securities purchased by or for the Fund (or otherwise in accordance with standard market practice) pay out of the monies held for the account of the Fund the total amount payable to the person from whom or the broker through whom the purchase was made, provided that the same conforms to the total amount payable as set forth in such Oral Instructions or Written Instructions.
- (k) Sales of Securities. PFPC Trust shall settle sold securities upon receipt of Oral Instructions or Written Instructions that specify:
- (i) the name of the issuer and the title of the security, including CUSIP number if applicable;
  - (ii) the number of shares or principal amount sold, and accrued interest, if any;
  - (iii) the date of trade and settlement;
  - (iv) the sale price per unit;
  - (v) the total amount payable to the Fund upon such sale;
  - (vi) the name of the broker through whom or the person to whom the sale was made; and
  - (vii) the location to which the security must be delivered and delivery deadline, if any.

PFPC Trust shall deliver the securities upon receipt of the total amount payable to the Fund upon such sale, provided that the total amount payable is the same as was set forth in the Oral Instructions or Written Instructions. Notwithstanding anything to the contrary in this Agreement, PFPC Trust may accept payment in such form as is consistent with standard industry practice and may deliver assets and arrange for payment in accordance with standard market practice.

(1) Reports; Proxy Materials.

- (i) PFPC Trust shall furnish to the Fund the following reports:
  - (A) such periodic and special reports as the Fund may reasonably request;
  - (B) a monthly statement summarizing all transactions and entries for the account of the Fund, listing each portfolio security belonging to the Fund (with the corresponding security identification number) held at the end of such month and stating the cash balance of the Account at the end of such month.
  - (C) the reports required to be furnished to the Fund pursuant to Rule 17f-4 of the 1940 Act; and
  - (D) such other information as may be agreed upon from time to time between the Fund and PFPC Trust.
- (ii) PFPC Trust shall transmit promptly to the Fund any proxy statement, proxy material, notice of a call or conversion or similar communication received by it as custodian of the Property. PFPC Trust shall be under no other obligation to inform the Fund as to such actions or events. For clarification, upon termination of this Agreement PFPC Trust shall have no responsibility to transmit such material or to inform the Fund or any other person of such actions or events.

(m) Crediting of Accounts. PFPC Trust may in its sole discretion credit an Account with respect to income, dividends, distributions, coupons, option premiums, other payments or similar items prior to PFPC Trust's actual receipt thereof, and in addition PFPC Trust may in its sole discretion credit or debit the assets in an Account on a contractual settlement date with respect to any sale, exchange or purchase applicable to the Account; provided that nothing herein or otherwise shall require PFPC Trust to make any advances or to credit any amounts until PFPC Trust's actual receipt thereof. If PFPC Trust credits an Account with respect to (a) income, dividends, distributions, coupons, option premiums, other payments or similar items on a contractual payment date or otherwise in advance of PFPC Trust's actual receipt of the amount due, (b) the proceeds of any sale or other disposition of assets on the contractual settlement date or otherwise in advance of PFPC Trust's actual receipt of the amount due or (c) provisional crediting of any amounts due, and (i) PFPC Trust is subsequently unable to collect full and final payment for the amounts so credited within a reasonable time period using reasonable efforts or (ii) pursuant to standard industry practice, law or regulation PFPC Trust is required to repay to a third party such amounts so credited, or if any Property has been incorrectly credited, PFPC Trust shall have the absolute right in its sole discretion without demand to reverse any such credit or payment, to debit or deduct the amount of such credit or payment from the Account, and to otherwise pursue recovery of any such amounts so credited from the Fund. The Fund hereby grants to PFPC Trust and to each sub-custodian utilized by PFPC Trust in connection with providing services to the Fund a first priority contractual possessory security interest in and a right of setoff against the

assets maintained in an Account in the amount necessary to secure the return and payment to PFPC Trust and to each such sub-custodian of any advance or credit made by PFPC Trust and/or by such sub-custodian (including charges related thereto) to such Account. Notwithstanding anything in this Agreement to the contrary, PFPC Trust shall be entitled to assign any rights it has under this subsection (m) to any sub-custodian utilized by PFPC Trust in connection with providing services to the Fund which sub-custodian makes any credits or advances with respect to the Fund.

- (n) Collections. All collections of monies or other property in respect, or which are to become part, of the Property (but not the safekeeping thereof upon receipt by PFPC Trust) shall be at the sole risk of the Fund. If payment is not received by PFPC Trust within a reasonable time after proper demands have been made, PFPC Trust shall notify the Fund in writing, including copies of all demand letters, any written responses and memoranda of all oral responses and shall await instructions from the Fund. PFPC Trust shall not be obliged to take legal action for collection unless and until reasonably indemnified to its satisfaction. PFPC Trust shall also notify the Fund as soon as reasonably practicable whenever income due on securities is not collected in due course and shall provide the Fund with periodic status reports of such income collected after a reasonable time.
- (o) Excess Cash Sweep. PFPC Trust will, consistent with applicable law, sweep any net excess cash balances daily into an investment vehicle or other instrument designated in Written Instructions, so long as the investment vehicle or instrument is acceptable to PFPC Trust, subject to a fee, paid to PFPC Trust for such service,

to be agreed between the parties. Such investment vehicle or instrument may be offered by an affiliate of PFPC Trust or by a PFPC Trust client and PFPC Trust may receive compensation therefrom.

- (p) Foreign Exchange. PFPC Trust, its sub-custodians and the respective affiliates of such entities (together, "Affiliated Entities") jointly or separately may act as principal and/or agent for foreign exchange ("FX") transactions for the Fund, and any of the Affiliated Entities may arrange FX transactions for the Fund with third parties that act as principal or agent.

Affiliated Entities and third parties may receive fees and other compensation in connection with FX transactions for the Fund, and PFPC Trust may receive from such entities a portion of their fees or other compensation.

Unless PFPC Trust itself is the principal for a FX transaction, PFPC Trust will not be responsible and shall have no liability for the actions or omissions of any principal (including any other Affiliated Entity) to any FX transaction for the Fund nor any responsibility to monitor the commercial terms of any such FX transactions.

14. **Duration and Termination**. This Agreement shall continue until terminated by the Fund or PFPC Trust on sixty (60) days' prior written notice to the other party. In the event this Agreement is terminated (pending appointment of a successor to PFPC Trust or vote of the shareholders of the Fund to dissolve or to function without a custodian of its cash, securities or other property), PFPC Trust shall not deliver cash, securities or other property of the the Fund. It may deliver them to a bank or trust company of PFPC Trust's choice, having aggregate capital, surplus and undivided profits, as shown by its last

published report, of not less than twenty million dollars (\$20,000,000), as a custodian for the Fund to be held under terms similar to those of this Agreement. PFPC Trust shall not be required to make any delivery or payment of assets upon termination until full payment shall have been made to PFPC Trust of all of its fees, compensation, costs and expenses (including without limitation fees and expenses associated with deconversion or conversion to another service provider and other trailing expenses incurred by PFPC Trust). PFPC Trust shall have a first priority contractual possessory security interest in and shall have a right of setoff against the Property as security for the payment of its fees, compensation, costs and expenses.

15. **Change of Control.** Notwithstanding any other provision of this Agreement, in the event of an agreement to enter into a transaction that would result in a Change of Control of the Fund's adviser or sponsor, the Fund's ability to terminate the Agreement pursuant to Section 14 will be suspended from the time of such agreement until two (2) years after the Change of Control.
16. **Notices.** Notices shall be addressed (a) if to PFPC Trust at 8800 Tinicum Boulevard, Philadelphia, Pennsylvania 19153, Attention: Sam Sparhawk (or such other address as PFPC Trust may inform the Fund in writing); (b) if to the Fund, at 445 Park Avenue, 10<sup>th</sup> Floor, New York, NY 10022, Attention: \_\_\_\_\_ (or such other address as the Fund may inform PFPC Trust in writing); or (c) if to neither of the foregoing, at such other address as shall have been given by like notice to the sender of any such notice or other communication by the receiving party. If notice is sent by confirming electronic delivery, hand or facsimile sending device, it shall be deemed to have been given immediately. If notice is sent by first-class mail, it shall be deemed to have been given five days after it has been mailed. If notice is sent by messenger, it shall be deemed to have been given on the day it is delivered.

17. **Amendments.** This Agreement, or any term hereof, may be changed or waived only by a written amendment, signed by the party against whom enforcement of such change or waiver is sought.
18. **Assignment.** PFPC Trust may assign this Agreement to any affiliate of PFPC Trust or of The PNC Financial Services Group, Inc., provided that PFPC Trust gives the Fund thirty (30) days' prior written notice of such assignment.
19. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
20. **Miscellaneous.**
- (a) **Entire Agreement.** This Agreement embodies the entire agreement and understanding between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof, provided that the parties may embody in one or more separate documents their agreement, if any, with respect to delegated duties.
- (b) **Non-Solicitation.** During the term of this Agreement and for one year thereafter, the Fund shall not (with the exceptions noted in the immediately succeeding sentence) knowingly solicit or recruit for employment or hire any of PFPC Trust's employees, and the Fund shall cause the Fund's sponsor and the Fund's affiliates to not (with the exceptions noted in the immediately succeeding sentence) knowingly solicit or recruit for employment or hire any of PFPC Trust's

employees. To “knowingly” solicit, recruit or hire within the meaning of this provision does not include, and therefore does not prohibit, solicitation, recruitment or hiring of a PFPC Trust employee by the Fund, the Fund’s sponsor or an affiliate of the Fund if the PFPC Trust employee was identified by such entity solely as a result of the PFPC Trust employee’s response to a general advertisement by such entity in a publication of trade or industry interest or other similar general solicitation by such entity.

- (c) No Representations or Warranties. Except as expressly provided in this Agreement, PFPC Trust hereby disclaims all representations and warranties, express or implied, made to the Fund or any other person, including, without limitation, any warranties regarding quality, suitability, merchantability, fitness for a particular purpose or otherwise (irrespective of any course of dealing, custom or usage of trade), of any services or any goods provided incidental to services provided under this Agreement. PFPC Trust disclaims any warranty of title or non-infringement except as otherwise set forth in this Agreement.
- (d) No Changes that Materially Affect Obligations. Notwithstanding anything in this Agreement to the contrary, the Fund agrees not to make any modifications to its registration statement or adopt any policies which would affect materially the obligations or responsibilities of PFPC Trust hereunder without the prior written approval of PFPC Trust, which approval shall not be unreasonably withheld or delayed.
- (e) Captions. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect.



- (f) Information. The Fund will provide such information and documentation as PFPC Trust may reasonably request in connection with services provided by PFPC Trust to the Fund.
- (g) Governing Law. This Agreement shall be deemed to be a contract made in Delaware and governed by Delaware law, without regard to principles of conflicts of law.
- (h) Partial Invalidity. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby.
- (i) Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.
- (j) Facsimile Signatures. The facsimile signature of any party to this Agreement shall constitute the valid and binding execution hereof by such party.
- (k) Customer Identification Program Notice. To help the U.S. government fight the funding of terrorism and money laundering activities, U.S. Federal law requires each financial institution to obtain, verify, and record certain information that identifies each person who initially opens an account with that financial institution on or after October 1, 2003. Consistent with this requirement, PFPC Trust may request (or may have already requested) the Fund's name, address and taxpayer identification number or other government-issued identification number, and, if such party is a natural person, that party's date of birth. PFPC Trust may also ask (and may have already asked) for additional identifying information, and PFPC Trust may take steps (and may have already taken steps) to verify the authenticity and accuracy of these data elements.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PFPC TRUST COMPANY

By: /s/ Edward A. Smith, III  
Name: EDWARD A. SMITH, III  
Title: VICE PRESIDENT & DIRECTOR

PENNANTPARK INVESTMENT CORPORATION

By: /s/ Aviv Efrat  
Name: Aviv Efrat  
Title: CFO

ADMINISTRATION AGREEMENT

AGREEMENT (this "Agreement") made as of April 17, 2007 by and between PennantPark Investment Corporation, a Maryland corporation (hereinafter referred to as the "Corporation"), and PennantPark Investment Administration, LLC, a Delaware limited liability company, (hereinafter referred to as the "Administrator").

**WITNESSETH:**

WHEREAS, the Corporation is a newly formed closed-end non-diversified management investment company that has filed a notice with the Securities and Exchange Commission that it intends to elect to be treated as a business development company under the Investment Company Act of 1940 (hereinafter referred to as the "Investment Company Act");

WHEREAS, the Corporation desires to retain the Administrator to provide administrative services to the Corporation in the manner and on the terms hereinafter set forth; and

WHEREAS, the Administrator is willing to provide administrative services to the Corporation on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the Corporation and the Administrator hereby agree as follows:

1. Duties of the Administrator

(a) Employment of Administrator. The Corporation hereby employs the Administrator to act as administrator of the Corporation, and to furnish, or arrange for others to furnish, the administrative services, personnel and facilities described below, subject to review by and the overall control of the Board of Directors of the Corporation, for the period and on the terms and conditions set forth in this Agreement. The Administrator hereby accepts such employment and agrees during such period to render, or arrange for the rendering of, such services and to assume the obligations herein set forth subject to the reimbursement of costs and expenses provided for below. The Administrator and such others shall for all purposes herein be deemed to be independent contractors and shall, unless otherwise expressly provided or authorized herein, have no authority to act for or represent the Corporation in any way or otherwise be deemed agents of the Corporation.

(b) Services. The Administrator shall perform (or oversee, or arrange for, the performance of) the administrative services necessary for the operation of the Corporation. Without limiting the generality of the foregoing, the Administrator shall provide the Corporation with office facilities, equipment, clerical, bookkeeping and record keeping services at such facilities and such other services as the Administrator, subject to review by the Board of Directors of the Corporation, shall from time to time determine to be necessary or useful to

perform its obligations under this Agreement. The Administrator shall also, on behalf of the Corporation, conduct relations with custodians, depositories, transfer agents, dividend disbursing agents, other stockholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Administrator shall make reports to the Directors of its performance of obligations hereunder and furnish advice and recommendations with respect to such other aspects of the business and affairs of the Corporation as it shall determine to be desirable; provided that nothing herein shall be construed to require the Administrator to, and the Administrator shall not, provide any advice or recommendation relating to the securities and other assets that the Corporation should purchase, retain or sell or any other investment advisory services to the Corporation. The Administrator shall be responsible for the financial and other records that the Corporation is required to maintain and shall prepare reports to stockholders, and reports and other materials filed with the Securities and Exchange Commission (the "SEC"). The Administrator will provide on the Corporation's behalf significant managerial assistance to those portfolio companies to which the Corporation is required to provide such assistance. In addition, the Administrator will assist the Corporation in determining and publishing the Corporation's net asset value, overseeing the preparation and filing of the Corporation's tax returns, and the printing and dissemination of reports to stockholders of the Corporation, and generally overseeing the payment of the Corporation's expenses and the performance of administrative and professional services rendered to the Corporation by others.

2. Records

The Administrator agrees to maintain and keep all books, accounts and other records of the Corporation that relate to activities performed by the Administrator hereunder and, if required by the Investment Company Act, will maintain and keep such books, accounts and records in accordance with that Act. In compliance with the requirements of Rule 31 a-3 under the Investment Company Act, the Administrator agrees that all records which it maintains for the Corporation shall at all times remain the property of the Corporation, shall be readily accessible during normal business hours, and shall be promptly surrendered upon the termination of the Agreement or otherwise on written request. The Administrator further agrees that all records which it maintains for the Corporation pursuant to Rule 31a-1 under the Investment Company Act will be preserved for the periods prescribed by Rule 31a-2 under the Investment Company Act unless any such records are earlier surrendered as provided above. Records shall be surrendered in usable machine-readable form. The Administrator shall have the right to retain copies of such records subject to observance of its confidentiality obligations under this Agreement.

3. Confidentiality

The parties hereto agree that each shall treat confidentially the terms and conditions of this Agreement and all information provided by each party to the other regarding its business and operations. All confidential information provided by a party hereto, including nonpublic personal information pursuant to Regulation S-P of the SEC, shall be used by any

other party hereto solely for the purpose of rendering services pursuant to this Agreement and, except as may be required in carrying out this Agreement, shall not be disclosed to any third party, without the prior consent of such providing party. The foregoing shall not be applicable to any information that is publicly available when provided or thereafter becomes publicly available other than through a breach of this Agreement, or that is required to be disclosed by any regulatory authority, any authority or legal counsel of the parties hereto, by judicial or administrative process or otherwise by applicable law or regulation.

4. Compensation; Allocation of Costs and Expenses

In full consideration of the provision of the services of the Administrator, the Corporation shall reimburse the Administrator for the costs and expenses incurred by the Administrator in performing its obligations and providing personnel and facilities hereunder. If requested to perform significant managerial assistance to portfolio companies of the Corporation, the Administrator will be paid an additional amount based on the services provided, which shall not exceed the amount the Corporation receives from the portfolio companies for providing this assistance.

The Corporation will bear all costs and expenses that are incurred in its operation and transactions and not specifically assumed by the Corporation's investment adviser (the "Adviser"), pursuant to that certain Investment Advisory Management Agreement, dated as of April 17, 2007 by and between the Corporation and the Adviser. Costs and expenses to be borne by the Corporation include, but are not limited to, those relating to: organization and offering; calculating the Corporation's net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by the Adviser payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the Corporation and in monitoring the Corporation's investments and performing due diligence (including related legal expenses) on its prospective portfolio companies and expenses related to unsuccessful portfolio acquisition efforts; interest payable on debt, if any, incurred to finance the Corporation's investments; offerings of the Corporation's common stock and other securities; investment advisory and management fees; administration fees payable under this Agreement; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments, including costs associated with meeting potential financial sponsors; transfer agent and custodial fees; federal and state registration fees; all costs of registration and listing the Corporation's shares on any securities exchange; federal, state and local taxes; independent Directors' fees and expenses; costs of preparing and filing reports or other documents required by the SEC; costs of any reports, proxy statements or other notices to stockholders, including printing costs; costs associated with individual or groups of stockholders; the Corporation's allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including printing, mailing, long distance telephone, copying, secretarial and other staff, independent auditors and outside legal costs; and all other expenses incurred by the Corporation or the Administrator in connection with administering the Corporation's business, including payments under this Agreement based upon the Corporation's allocable portion of the

Administrator's overhead in performing its obligations under this Agreement, including rent and the allocable portion of the cost of the Corporation's chief compliance officer and chief financial officer and their respective staffs.

At its election, the Administrator may elect to receive payment under this Agreement in the form of a percentage of assets under management by the Corporation, rather than based on the sum of the actual expenses accrued. Such percentage shall be in an amount mutually agreed by the Administrator and the Corporation.

5. Limitation of Liability of the Administrator; Indemnification

The Administrator (and its officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with the Administrator, including without limitation its sole member) shall not be liable to the Corporation for any action taken or omitted to be taken by the Administrator in connection with the performance of any of its duties or obligations under this Agreement or otherwise as administrator for the Corporation, and the Corporation shall indemnify, defend and protect the Administrator (and its officers, managers, partners, agents, employees, controlling persons, members, and any other person or entity affiliated with the Administrator, including without limitation the Adviser, each of whom shall be deemed a third party beneficiary hereof) (collectively, the "Indemnified Parties") and hold them harmless from and against all damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Corporation or its security holders) arising out of or otherwise based upon the performance of any of the Administrator's duties or obligations under this Agreement or otherwise as administrator for the Corporation. Notwithstanding the preceding sentence of this Paragraph 5 to the contrary, nothing contained herein shall protect or be deemed to protect the Indemnified Parties against or entitle or be deemed to entitle the Indemnified Parties to indemnification in respect of, any liability to the Corporation or its security holders to which the Indemnified Parties would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of the Administrator's duties or by reason of the reckless disregard of the Administrator's duties and obligations under this Agreement (to the extent applicable, as the same shall be determined in accordance with the Investment Company Act and any interpretations or guidance by the SEC or its staff thereunder).

6. Activities of the Administrator

The services of the Administrator to the Corporation are not to be deemed to be exclusive, and the Administrator and each affiliate is free to render services to others. It is understood that directors, officers, employees and stockholders of the Corporation are or may become interested in the Administrator and its affiliates, as directors, officers, members, managers, employees, partners, stockholders or otherwise, and that the Administrator and directors, officers, members, managers, employees, partners and stockholders of the Administrator and its affiliates are or may become similarly interested in the Corporation as stockholders or otherwise.

7. Duration and Termination of this Agreement

This Agreement shall become effective as of the date hereof, and shall remain in force with respect to the Corporation for two years thereafter, and thereafter continue from year to year, but only so long as such continuance is specifically approved at least annually by (i) the Board of Directors of the Corporation and (ii) a majority of those Directors who are not parties to this Agreement or “interested persons” (as defined in the Investment Company Act) of any such party.

This Agreement may be terminated at any time, without the payment of any penalty, by vote of the Directors of the Corporation, or by the Administrator, upon 60 days’ written notice to the other party. This Agreement may not be assigned by a party without the consent of the other party.

8. Amendments of this Agreement

This Agreement may be amended pursuant to a written instrument by mutual consent of the parties.

9. Governing Law

This Agreement shall be construed in accordance with laws of the State of New York and the applicable provisions of the Investment Company Act, if any. To the extent that the applicable laws of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, if any, the latter shall control.

10. Entire Agreement

This Agreement contains the entire agreement of the parties and supercedes all prior agreements, understandings and arrangements with respect to the subject matter hereof.

11. Notices

Any notice under this Agreement shall be given in writing, addressed and delivered or mailed, postage prepaid, to the other party at its principal office.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

PENNANTPARK INVESTMENT CORPORATION

By: /s/ Arthur Penn

Name:

Title:

PENNANTPARK INVESTMENT ADMINISTRATION LLC

By: /s/ Arthur Penn

Name:

Title:



**AST** *American Stock Transfer  
& Trust Company*

CERTIFICATE OF APPOINTMENT OF  
AMERICAN STOCK TRANSFER  
& TRUST COMPANY as

TRANSFER AGENT

REGISTRAR

**BY**

Pennant Investment Corporation (the "Company")  
**(name of corporation)**

a Maryland  
**(state of corporation)**

Corporation  
**(description of entity - e.g., corporation, partnership)**

The Company is authorized to issue the following shares/units:

<u>Class of Stock</u>	<u>Par Value</u>	<u>Number of Shares /Units Authorized</u>
Common	\$ 0.001	100,000,000
Preferred		An amount up to any unissued shares of stock

The address of the Company to which Notices may be sent is:

445 Park Avenue  
9<sup>th</sup> Floor  
New York, NY 10022

The name and address of legal counsel for the Company is:

Dechert LLP  
c/o Thomas Friedmann  
1775 I Street, N.W.  
Washington, DC 20006-2401

Attached are true copies of the certificate of incorporation and bylaws (or such other comparable documents for non-corporate entities), as amended, of the Company.

If any provision of the certificate of incorporation or by-laws of the Corporation, any court or administrative order, or any other document, affects any transfer agency or registrar function or responsibility relating to the shares, attached is a statement of each such provision.

All shares issued and outstanding as of the date hereof, or to be issued during the term of this appointment, are/shall be duly authorized, validly issued, fully paid and non-assessable. All such shares are (or, in the case of shares that have not yet been issued, will be) duly registered under the Securities Act of 1933 and the Securities Act of 1934. Any shares not so registered were or shall be issued or transferred in a transaction or series of transactions exempt from the registration provisions of the relevant Act, and in each such issuance or transfer, the Corporation was or shall be so advised by its legal counsel and all shares issued or to be issued bear or shall bear all appropriate legends.

American Stock Transfer & Trust Company ("AST") is hereby appointed as transfer agent and registrar for the shares/units of the Company set forth above, in accordance with the general practices of AST and its regulations set forth in the pamphlet entitled Regulations of American Stock Transfer & Trust Company, a copy of which we have received and reviewed.

The initial term of this Certificate of Appointment shall be three (3) years from the date of this Certificate of Appointment and the appointment shall automatically be renewed for further three years successive terms without further action of the parties, unless written notice is provided by either party at least 90 days prior to the end of the initial or any subsequent three year period. The term of this appointment shall be governed in accordance with this paragraph, notwithstanding the cessation of active trading in the capital stock of the Company.

The Corporation will advise AST promptly of any change in any information contained in this Certificate by a supplemental Certificate or otherwise in writing.

WITNESS my hand this 12 day of March, 2007

By: /s/ Arthur Penn  
Arthur Penn  
Title: CEO

**TRADEMARK LICENSE AGREEMENT**

This TRADEMARK LICENSE AGREEMENT (this "Agreement") is made and effective as of April 15, 2007 (the "Effective Date"), by and between PennantPark Investment Advisers, LLC a Delaware limited liability company (the "Licensor" or "Adviser"), and PennantPark Investment Corporation, a corporation organized under the laws of the State of Maryland ("Corporation") (each a "party," and collectively, the "parties").

**RECITALS**

WHEREAS, Adviser is the owner of the trade name "PENNANTPARK" (the "Licensed Mark") and has filed an application to register the mark in the United States of America (the "Territory") for investment management, investment consultation and investment advisory services.

WHEREAS, Corporation is a newly organized closed-end management investment company that has filed notice with the Securities and Exchange Commission that it intends to elect to be treated as a business development company under the Investment Company Act of 1940 (the "1940 Act");

WHEREAS, the Corporation is entering into an investment advisory and management agreement with Adviser (the "Advisory Agreement"), wherein Corporation will engage Adviser to act as the investment adviser to the Corporation; and

WHEREAS, Corporation desires to use the Licensed Mark in connection with the operation of its business, and Adviser is willing to permit Corporation to use the Licensed Mark, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**ARTICLE 1.**  
**LICENSE GRANT**

1.1. License. Subject to the terms and conditions of this Agreement, Adviser hereby grants to Corporation, and Corporation hereby accepts from Adviser, a personal, non-exclusive, royalty-free right and license to use the Licensed Mark solely and exclusively as an element of Corporation's own corporate name and in connection with marketing the investment management, investment consultation and investment advisory services that Adviser may provide to Corporation. During the term of this Agreement, Corporation shall use the Licensed Mark only to the extent permitted under this License, and except as provided above, neither Corporation nor any affiliate, owner, director, officer, employee, or agent thereof shall otherwise use the Licensed Mark or any derivative thereof in the Territory without the prior express written consent of Adviser in its sole and absolute discretion and shall not use the Licensed Mark for any purpose outside the Territory. All rights not expressly granted to Corporation hereunder shall remain the exclusive property of Adviser.

1.2. Licensor's Use. Nothing in this Agreement shall preclude Licensor or any of its successors or assigns from using or permitting other entities to use the Licensed Mark, whether or not such entity directly or indirectly competes or conflicts with Corporation's business in any manner.

ARTICLE 2.  
OWNERSHIP

2.1. Ownership. Corporation acknowledges and agrees that Adviser is the owner of all right, title, and interest in and to the Licensed Mark, and all such right, title and interest shall remain with the Adviser. Corporation shall not contest, dispute, challenge, oppose or seek to cancel Adviser's right, title, and interest in and to the Licensed Mark. Corporation shall not prosecute any application for registration of the Licensed Mark, or seek to register the Licensed Mark as a domain name or part of any domain name.

2.2. Goodwill. Corporation acknowledges that Corporation shall not acquire any right, title, or interest in the Licensed Mark by virtue of this Agreement other than the license granted hereunder, and disclaims any such right, title, interest, or ownership. All goodwill and reputation generated by Corporation's use of the Licensed Mark shall inure to the exclusive benefit of Adviser. Corporation shall not by any act or omission use the Licensed Mark in any manner that disparages or reflects adversely on Adviser or its business or reputation. Corporation shall not take any action that would interfere with or prejudice Adviser's ownership or registration of the Licensed Mark, the validity of the Licensed Mark or the validity of the license granted by this Agreement.

ARTICLE 3.  
COMPLIANCE

3.1. Quality Control. In order to preserve the inherent value of the Licensed Mark, Corporation agrees to use reasonable efforts to ensure that it maintains the quality of the Corporation's business and the operation thereof equal to the standards prevailing in the operation of Adviser's and Corporation's business as of the date of this Agreement. Adviser shall oversee the quality of the services provided under the Licensed Mark by virtue of its role as investment adviser to the Corporation, and shall approve, prior to their use, all prospectuses, advertisements, and other materials upon which Corporation uses the Licensed Mark. The Corporation further agrees to use the Licensed Mark in accordance with such quality standards as may be reasonably established by Licensor and communicated to the Corporation from time to time in writing, or as may be agreed to by Licensor and the Corporation from time to time in writing.

3.2. Compliance With Laws. Corporation agrees that the business operated by it in connection with the Licensed Mark shall comply with all laws, rules, regulations and

requirements of any governmental body in the Territory or elsewhere as may be applicable to the operation, advertising and promotion of the business and shall notify Adviser of any action that must be taken by Corporation to comply with such law, rules, regulations or requirements.

3.3. Notification of Infringement. Each party shall immediately notify the other party and provide to the other party all relevant background facts upon becoming aware of (a) any registrations of, or applications for registration of, marks in the Territory that do or may conflict with any Licensed Mark, and (b) any infringements, imitations, or illegal use or misuse of the Licensed Mark in the Territory. Adviser shall have the exclusive right, but not the obligation, to prosecute, defend and/or settle in its sole discretion, all actions, proceedings and claims involving any Third Party Infringement or Third Party Claim, and to take any other action that it deems necessary or proper for the protection and preservation of its rights in the Licensed Mark. Corporation shall cooperate with Adviser in the prosecution, defense, or settlement of such actions, proceedings, or claims.

#### ARTICLE 4.

##### REPRESENTATIONS AND WARRANTIES

4.1. Corporation acknowledges that Adviser has applied for registration in the Territory of PENNANTPARK, that Adviser's application for registration has not yet been examined or approved for registration, and that Corporation accepts this license on an "as is" basis. Corporation acknowledges that Adviser makes no explicit or implicit representation or warranty as to the registrability, validity, enforceability, or ownership of the Licensed Mark, or as to Corporation's ability to use the Licensed Mark without infringing or otherwise violating the rights of others, and Adviser has no obligation to indemnify Corporation with respect to any claims arising from Corporation's use of the Licensed Mark.

4.2. Mutual Representations. Each party hereby represents and warrants to the other party as follows:

(a) Due Authorization. Such party is a corporation duly incorporated and in good standing as of the Effective Date, and the execution, delivery and performance of this Agreement by such party have been duly authorized by all necessary action on the part of such party.

(b) Due Execution. This Agreement has been duly executed and delivered by such party and, with due authorization, execution and delivery by the other party, constitutes a legal, valid and binding obligation of such party, enforceable against such party in accordance with its terms.

(c) No Conflict. Such party's execution, delivery and performance of this Agreement do not: (i) violate, conflict with or result in the breach of any provision of the charter or by-laws (or similar organizational documents) of such party; (ii) conflict with or violate any

law or governmental order applicable to such party or any of its assets, properties or businesses; or (iii) conflict with, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of any contract, agreement, lease, sublease, license, permit, franchise or other instrument or arrangement to which it is a party.

ARTICLE 5.

TERM AND TERMINATION

5.1. Term. This Agreement shall expire (a) upon expiration or termination of the Advisory Agreement; (b) if the Adviser ceases to serve as investment adviser to Corporation; (c) by Adviser or Corporation upon sixty (60) days' written notice to the other party, or (d) by Adviser at any time in the event Corporation assigns or attempts to assign or sublicense this Agreement or any of Corporation's rights or duties hereunder without the prior written consent of Adviser.

5.2. Upon Termination. Upon expiration or termination of this Agreement, all rights granted to Corporation under this Agreement with respect to the Licensed Mark shall cease, and Corporation shall immediately discontinue all use of the Licensed Mark. Corporation shall immediately change its corporate name by deleting the term "PENNAANTPARK." For twenty- four (24) months following termination of this Agreement, Corporation shall specify on all public-facing materials in a prominent place and in prominent typeface that Corporation is no longer operating under the Licensed Mark and is no longer associated with Licensor.

ARTICLE 6.

MISCELLANEOUS

6.1. Assignment. Corporation will not sublicense, assign, pledge, grant or otherwise encumber or transfer to any third party all or any part of its rights or duties under this Agreement, in whole or in part, without the prior written consent from Adviser, which consent Adviser may grant or withhold in its sole and absolute discretion. Any purported transfer without such consent shall be void *ab initio*.

6.2. Independent Contractor. Except as expressly provided or authorized in the Advisory Agreement, neither party shall have, or shall represent that it has, any power, right or authority to bind the other party to any obligation or liability, or to assume or create any obligation or liability on behalf of the other party.

6.3. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service (with signature required), by facsimile, or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses:

If to Adviser:

PennantPark Investment Advisers, LLC  
445 Park Avenue, 10<sup>th</sup> Floor  
New York, NY 10022  
Tel. No.: (212) 307-3280  
Fax No.: (212) 515-3451  
Attn: Chief Compliance Officer

If to Corporation:

PennantPark Investment Corporation  
445 Park Avenue, 10<sup>th</sup> Floor  
New York, NY 10022  
Tel. No.: (212) 307-3280  
Fax No.: (212 ) 515-3451  
Attn: Chief Compliance Officer

6.4. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York. The parties unconditionally and irrevocably consent to the exclusive jurisdiction of the courts located in the State of New York and waive any objection with respect thereto, for the purpose of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

6.5. Amendment. This Agreement may not be amended or modified except by an instrument in writing signed by each party hereto.

6.6. No Waiver. The failure of either party to enforce at any time for any period the provisions of or any rights deriving from this Agreement shall not be construed to be a waiver of such provisions or rights or the right of such party thereafter to enforce such provisions, and no waiver shall be binding unless executed in writing by all parties hereto.

6.7. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

6.8. Headings. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

6.9. Counterparts. This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed to be an original instrument and all of which taken together shall constitute one and the same agreement.

6.10. Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral, between the parties with respect to such subject matter.

6.11. Third party Beneficiaries. Nothing in this Agreement, either express or implied, is intended to or shall confer upon any third party any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

IN WITNESS WHEREOF, each party has caused this Agreement to be executed as of the Effective Date by its duly authorized officer.

ADVISER:

PENNANTPARK INVESTMENT ADVISERS, LLC

By: /s/ Arthur H. Penn

Name: Arthur H. Penn

Title: Managing Member

CORPORATION:

PENNANTPARK INVESTMENT CORPORATION

By: /s/ Arthur H. Penn

Name: Arthur H. Penn

Title: Chief Executive Officer



**REGISTRATION RIGHTS AGREEMENT**

**dated as of April 16, 2007**

**among**

**PENNANTPARK INVESTMENT CORPORATION**

**and**

**THE OTHER HOLDERS NAMED HEREIN**

## REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement is made and entered into as of April 16, 2007 (this "Agreement"), among PennantPark Investment Corporation, a corporation organized under the laws of Maryland (the "Company"), and the persons named on the signature pages hereto (the "Investors").

### Recitals

A. WHEREAS, the Company has filed a registration statement on Form N-2 for the purpose of registering 31,050,000 shares of its Common Stock (as defined herein) for issuance and sale by the Company in an initial public offering (the "IPO").

B. WHEREAS, immediately prior to the IPO, the Company and the Investors are entering into a subscription agreement dated April 16, 2007 (the "Subscription Agreement"), pursuant to which the Company has agreed to issue and sell to the Investors, and the Investors have agreed to purchase from the Company, an aggregate of 320,000 shares of Common Stock (the "Shares") on the terms and subject to the conditions described therein; and

C. WHEREAS, as an inducement to the Investors to enter into the Subscription Agreement, the Company has agreed to provide the registration rights set forth in this Agreement.

### Agreement

NOW, THEREFORE, in consideration of the foregoing and the mutual promises, covenants and agreements of the parties hereto, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

#### SECTION 1. DEFINITIONS

1.1. Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Adverse Disclosure" means public disclosure of material non-public information, which disclosure, in the good faith judgment of the Board of Directors or the chief executive officer of the Company after consultation with counsel to the Company, (i) would be required to be made in any Registration Statement so that such Registration Statement would not be materially misleading, (ii) would not be required to be made at such time but for the public availability of such Registration Statement and (iii) the Company has a bona fide business purpose for not disclosing publicly.

"Agreement" has the meaning set forth in the preamble hereto.

“Common Stock” means the common stock, par value \$.001 per share, of the Company.

“Company” has the meaning set forth in the preamble hereto and shall include the Company’s successors by merger, amalgamation, acquisition, reorganization or otherwise.

“Demand Registration” has the meaning set forth in Section 2.2(a).

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and any successor thereto, and any rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

“holder” or “holders” means any holder or holders of Registrable Securities who is a party hereto or who otherwise agrees in writing to be bound by the provisions of this Agreement pursuant to Section 3.3.

“Incidental Registration” has the meaning set forth in Section 2.3(a).

“Investment Company Act” means the Investment Company Act of 1940, as amended, and any successor thereto, and any rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

“Investors” has the meaning set forth in the preamble hereto.

“IPO” has the meaning set forth in the recitals hereto.

“Listing Date” means the date on which the Common Stock commences trading on the Nasdaq Global Market, any U.S. national securities exchange, the London Stock Market (including the AIM Market), the Euronext Registered Market or any other securities exchange.

“Loss” has the meaning set forth in Section 2.9(a).

“NASD” means the National Association of Securities Dealers, Inc.

“Person” means any individual, firm, limited liability company or partnership, joint venture, corporation, joint stock company, trust or unincorporated organization, incorporated or unincorporated association, government (or any department, agency or political subdivision thereof) or other entity of any kind.

“Prospectus” means the prospectus included in any Registration Statement, all amendments and supplements to such prospectus and all material incorporated by reference in such prospectus.

“Registrable Securities” means (i) all of the Shares issued and sold by the Company to the Investors pursuant to the terms of the Subscription Agreement and (ii) any securities that may be issued or distributed or be issuable in respect thereof by way of stock

dividend, stock split or other distribution, merger, amalgamation, consolidation, exchange offer, recapitalization or reclassification or similar transaction or exercise or conversion of any of the foregoing; *provided, however*, that any of the foregoing securities shall cease to be “Registrable Securities” to the extent (i) a Registration Statement with respect to their sale or exchange for registered securities has been declared effective under the Securities Act and they have been disposed of or exchanged pursuant to such Registration Statement, (ii) they have been distributed pursuant to Rule 144 (or any similar provision then in force) under the Securities Act or (iii) new certificates for them not bearing a legend restricting transfer under the Securities Act shall have been delivered by the Company and they may be publicly resold (without volume or method of sale restrictions) without registration under the Securities Act. For purposes of this Agreement, a “class” of Registrable Securities shall mean all Securities with the same terms and a “percentage” (or a “majority”) of the Registrable Securities (or, where applicable, of any other securities) shall be determined based on the number of shares of such securities.

“registration” means a registration of the Company’s securities for sale to the public under a Registration Statement.

“Registration Statement” means any registration statement of the Company filed with, or to be filed with, the SEC under the rules and regulations promulgated under the Securities Act, including the Prospectus, any and all amendments and supplements to such registration statement, including post-effective amendments, and all exhibits to and all material incorporated by reference in such registration statement.

“SEC” means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended, and any successor thereto, and any rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

“Shelf Registration” means a registration effected pursuant to Section 2.1.

“Shelf Registration Statement” means a Registration Statement of the Company filed with the SEC on Form N-2 (or any successor form or other appropriate forms under the Securities Act or the Investment Company Act) for an offering to be made on a continuous or delayed basis pursuant to Rule 415 under the Securities Act (or any similar rule that may be adopted by the SEC) covering the Registrable Securities.

“Subscription Agreement” has the meaning set forth in the recitals hereto.

“Underwritten Offering” means a registration in which securities of the Company are sold to an underwriter or underwriters on a firm commitment basis for reoffering to the public.

1.2. General Interpretive Principles. Whenever used in this Agreement, except as otherwise expressly provided or unless the context otherwise requires, any noun or pronoun

shall be deemed to include the plural as well as the singular and to cover all genders. The names assigned in this Agreement and the section captions used herein are for convenience of reference only and shall not be construed to affect the meaning, construction or effect hereof. Unless otherwise specified, the terms “hereof,” “herein,” “hereunder” and similar terms refer to this Agreement as a whole (including the exhibits, schedules and disclosure statements hereto), and references herein to Sections refer to Sections of this Agreement.

## SECTION 2. REGISTRATION RIGHTS

### 2.1. Shelf Registration.

(a) Filing. Commencing at such time as the Company is eligible to use Form S-3, and subject to Section 2.1(c), upon the written request of the holders of not less than 25% of the Registrable Securities at any time, the Company shall use its reasonable best efforts to file with the SEC as soon as practicable and, in any event, within 60 days of the Company’s receipt of such written request, a Shelf Registration Statement relating to the offer and sale of all Registrable Securities from time to time in accordance with the reasonable and customary methods of distribution elected by such requesting holders and shall use its reasonable best efforts to cause such Shelf Registration Statement to be declared effective under the Securities Act. The Company shall not be required to effect more than three Shelf Registrations covering the Registrable Securities. The Company may elect to include in such registration additional securities of the same class as the Registrable Securities to be registered hereunder, including securities to be sold for the Company’s own account or for the account of Persons who are not holders of Registrable Securities.

(b) Continued Effectiveness. Subject to Section 2.1(c), the Company shall use its reasonable best efforts to keep a Shelf Registration Statement filed pursuant to Section 2.1(a) continuously effective for a period of two years (or such shorter period as will terminate when all Registrable Securities covered by such Shelf Registration Statement have been sold or withdrawn) in order to permit the Prospectus forming a part thereof to be usable by the holders during such two-year (or shorter) period. The Company shall not be deemed to have used its reasonable best efforts to keep a Shelf Registration Statement effective if the Company voluntarily takes any action, or omits to take any action, that would result in the inability of any holder of Registrable Securities covered by such Registration Statement to be able to offer and sell any such Registrable Securities during the two-year (or shorter) period during which such Registration Statement is required to be effective, unless such action or omission is required by applicable law.

(c) Suspension of Registration. If the filing, initial effectiveness or continued use of a Shelf Registration Statement at any time would require the Company to make an Adverse Disclosure or would require the inclusion in such Shelf Registration Statement of financial statements that are unavailable to the Company for reasons beyond the Company’s control, the Company may, upon giving prompt written notice of such action to the holders, delay the filing or initial effectiveness of, or suspend use of, such Shelf Registration Statement for the shortest period of time determined in good faith by the Company to be necessary for such

purpose; *provided, however*, that the Company shall not be permitted to do so (A) more than two times during any 12-month period, (B) for a period exceeding 120 days on any one occasion or (C) for a total of more than 180 days in any 12-month period. In the event the Company exercises its rights under the preceding sentence, the holders agree to suspend, immediately upon their receipt of the notice referred to above, their use of the Prospectus relating to such Shelf Registration in connection with any sale or offer to sell Registrable Securities and agree not to disclose to any other Person the fact that the Company has exercised such rights or any related facts. The Company shall immediately notify the holders upon the expiration of any period during which it exercised its rights under this Section 2.1(c) and that the use of the Prospectus may, subject to receipt of any supplemented or amended Prospectus contemplated by Section 2.5(a)(iv) if necessitated by the circumstances giving rise to the delay or suspension described above, be resumed. In the event that the Company shall exercise its rights under this Section 2.1(c) to suspend the use of such Shelf Registration Statement after it has been declared effective, the period during which the Shelf Registration Statement is required pursuant to Section 2.1(b) to be maintained effective shall be extended by the number of days during the period from and including the date of the giving of such suspension notice to and including the date when each holder of Registrable Securities covered by such Shelf Registration Statement either receives the copies of the supplemented or amended Prospectus contemplated by Section 2.5(a)(iv) or is advised in writing by the Company that the use of the Prospectus may be resumed.

(d) Underwritten Offering. If the holders of not less than two-thirds of the Registrable Securities included in any offering pursuant to a Shelf Registration Statement so elect, such offering shall be in the form of an Underwritten Offering; *provided* that the estimated market value of any such offering, including any other shares of Common Stock included therein, would constitute at least \$50 million in aggregate gross proceeds. If necessary, the Company shall amend or supplement the Shelf Registration Statement for such purpose. The Issuer shall have the right, after consulting with the holders of Registrable Securities making such election to be included in such Underwritten Offering, to select the managing underwriter or underwriters for the offering, subject to the right of a majority of such holders to approve such managing underwriter or underwriters, which approval shall not be unreasonably withheld.

(e) Effect on Demand and Incidental Registration Obligation. The provisions of Sections 2.2 and 2.3 shall not apply to any holder of Registrable Securities at any time the Company is maintaining an effective Shelf Registration Statement with respect to any Registrable Securities of such holder and is complying with its obligations under this Section 2.1 with respect to Registrable Securities.

## 2.2. Demand Registrations.

(a) Demand by Holders. (i) From and after the date which is the earlier of (A) 180 days after the date upon which the Company has commenced filing reports under Section 13 of the Exchange Act with the SEC and (B) the Listing Date, the holders of not less than two-thirds of Registrable Securities may make a written request to the Company for registration of all

or any portion of the Registrable Securities held by such requesting holders; *provided* that the estimated market value of the Registrable Securities to be registered is at least \$50 million in aggregate gross proceeds in any public offering thereof. Any such requested registration shall hereinafter be referred to as a “Demand Registration.” Each request for a Demand Registration shall specify the aggregate amount of Registrable Securities to be registered and the intended methods of disposition thereof.

(ii) Within five days following receipt of any written request for a Demand Registration, the Company shall deliver written notice of such request to all other holders of Registrable Securities of the class or classes to be registered. Thereafter, subject to Section 2.2(g), the Company shall include in such Demand Registration any additional Registrable Securities of each such class which the holder or holders thereof have requested in writing be included in such Demand Registration; *provided* that all requests therefor have been received by the Company within 15 days of the Company’s having sent the applicable notice to such holder or holders. All such requests shall specify the aggregate amount and class of Registrable Securities to be registered and the intended method of distribution of the same. Subject to Section 2.2(g), the Company also may elect to include in such registration additional securities of the class or classes of the Registrable Securities to be registered hereunder, including securities to be sold for the Company’s own account or for the account of Persons who are not holders of Registrable Securities.

(iii) As promptly as practicable (and, in any event, within 60 days) following receipt of a written request for a Demand Registration, the Company shall file a Registration Statement relating to such Demand Registration and shall use its reasonable best efforts to cause such Registration Statement to be declared effective under the Securities Act.

(b) Limitation on Demand Registrations. In no event shall the Company be required to effect more than four Demand Registrations.

(c) Demand Withdrawal. A holder may withdraw its Registrable Securities from a Demand Registration at any time prior to the effectiveness of the applicable Registration Statement. If holders of a majority of the Registrable Securities to be included in the applicable Registration Statement do so, the Company shall cease all efforts to secure registration and such registration nonetheless shall be deemed a Demand Registration for purposes Section 2.2(b) unless such withdrawing holders shall have paid or reimbursed the Company for all of the reasonable out-of-pocket fees and expenses incurred by the Company in connection with the withdrawn registration.

(d) Effective Registration. The Company shall be deemed to have effected a Demand Registration if the applicable Registration Statement is declared effective by the SEC and remains effective for not less than 180 days (or such shorter period as will terminate when all Registrable Securities covered by such Registration Statement have been sold or withdrawn). No Demand Registration shall be deemed to have been effected if an Underwritten Offering is contemplated by such Demand Registration and the conditions to closing specified in the

applicable underwriting agreement are not satisfied by reason of a wrongful act, misrepresentation or breach of such underwriting agreement or this Agreement by the Company.

(e) Suspension of Registration. If the filing, initial effectiveness or continued use of a Registration Statement in respect of a Demand Registration at any time would require the Company to make an Adverse Disclosure or would require the inclusion in such Registration Statement of financial statements that are unavailable to the Company for reasons beyond the Company's control, the Company may, upon giving prompt written notice of such action to the holders, delay the filing or initial effectiveness of, or suspend use of, such Registration Statement for a the shortest period of time determined in good faith by the Company to be necessary for such purpose; *provided, however*, that the Company shall not be permitted to do so for a period exceeding 90 days on any one occasion. In the event the Company exercises its rights under the preceding sentence, the holders agree to suspend, immediately upon their receipt of the notice referred to above, their use of the Prospectus relating to the Demand Registration in connection with any sale or offer to sell Registrable Securities and agree not to disclose to any other Person the fact that the Company has exercised such rights or any related facts. The Company shall immediately notify the holders of the expiration of any period during which it exercised its rights under this Section 2.2(e) and that the use of the Prospectus may, subject to receipt of any supplemented or amended Prospectus contemplated by Section 2.5(a)(iv) if necessitated by the circumstances giving rise to the delay or suspension described above, be resumed. In the event that the Company shall exercise its rights under this Section 2.2(e) to suspend the use of such Registration Statement after it has been declared effective, the period during which the Registration Statement is required pursuant to Section 2.2(d) to be maintained effective shall be extended by the number of days during the period from and including the date of the giving of such suspension notice to and including the date when each seller of Registrable Securities covered by such Registration Statement either receives the copies of the supplemented or amended Prospectus contemplated by Section 2.5(a)(iv) or is advised in writing by the Company that the use of the Prospectus may be resumed.

(f) Underwritten Offering. If either the Company or the holders of not less than two-thirds of the Registrable Securities included in any offering pursuant to a Demand Registration so elect, such offering shall be in the form of an Underwritten Offering. The Company shall have the right, after consulting with the holders of the Registrable Securities included in such Underwritten Offering, to select the managing underwriter or underwriters for the offering, subject to the right of a majority of such holders to approve such managing underwriter or underwriters, which approval shall not be unreasonably withheld.

(g) Priority of Securities Registered Pursuant to Demand Registrations. If the managing underwriter or underwriters of a proposed Underwritten Offering of a class of Registrable Securities included in a Demand Registration (or, in the case of a Demand Registration not being underwritten, the holders of a majority of a class of Registrable Securities included in such Registration Statement), inform the holders of such Registrable Securities and the Company in writing that, in its or their opinion, the number of securities of such class requested to be included in such Demand Registration (including securities of the Company for



its own account or for the account of other Persons which are not holders of Registrable Securities) exceeds the number which can be sold in such offering without being likely to have a significant adverse effect on the price, timing or distribution of the class of securities offered or the market for the class of securities offered, the Company will include in such registration all of the Registrable Securities of such class sought to be registered therein and only such lesser number of other securities as shall not, in the opinion of the managing underwriter or underwriters (or, in the case of a Demand Registration not being underwritten, in the opinion of the holders of a majority of such class of Registrable Securities included therein) be likely to have such an effect. In the event that, despite the reduction of the number of shares of securities to be offered for the account of the Company or Persons other than holders of Registrable Securities in such registration pursuant to the immediately preceding sentence, the number of Registrable Securities of such class to be included in such registration exceeds the number which, in the opinion of the managing underwriter or underwriters (or, in the case of a Demand Registration not being underwritten, the holders of a majority of such class of Registrable Securities included therein) can be sold without having the adverse effect referred to above, the number of Registrable Securities of such class that can be included without having such an adverse effect shall be allocated *pro rata* among the holders which have requested participation in the Demand Registration (based, for each such holder, on the percentage derived by dividing (i) the number of Registrable Securities of such class which such holder has requested to include in such Demand Registration by (ii) the aggregate number of Registrable Securities of such class which all such holders have requested to include).

(h) Registration Statement Form. Registrations under this Section 2.2 shall be on such appropriate registration form of the SEC (i) as shall be selected by the Company and as shall be reasonably acceptable to the holders of a majority of Registrable Securities requesting participation in the Demand Registration and (ii) as shall permit the disposition of the Registrable Securities in accordance with the intended method or methods of disposition specified in the applicable holders' requests for such registration.

### 2.3. Incidental Registrations.

(a) Participation. (i) If the Company at any time proposes to file a Registration Statement with respect to any offering of its equity securities (including securities convertible into equity securities) for its own account or for the account of any holders of its securities (other than (A) a registration under Section 2.1 or 2.2 hereof, (B) a registration on Form N-14 or any successor form to such form or (C) pursuant to a shelf registration under Rule 415 of the Securities Act), then, as soon as practicable (but in no event less than 20 days prior to the proposed date of filing such Registration Statement), the Company shall give written notice of such proposed filing to all holders of Registrable Securities, and such notice shall offer the holders of such Registrable Securities the opportunity to register such number of Registrable Securities as each such holder may request in writing (an "Incidental Registration"). Subject to this Section 2.3(b), the Company shall include in such Registration Statement all such Registrable Securities which are requested to be included therein within 15 days after the receipt by such holder of any such notice. If at any time after giving written notice of its intention to

register any securities and prior to the effective date of the Registration Statement filed in connection with such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to each holder of Registrable Securities and, (x) in the case of a determination not to register, shall be relieved of its obligation to register any Registrable Securities in connection with such registration, and (y) in the case of a determination to delay registering, shall be permitted to delay registering any Registrable Securities for the same period as the delay in registering such other securities.

(ii) If the offering pursuant to an Incidental Registration is to be an Underwritten Offering, then each holder making a request for its Registrable Securities to be included therein must, and the Company shall make such arrangements with the underwriters so that each such holder may, participate in such Underwritten Offering on the same terms as the Company and other Persons selling securities in such Underwritten Offering. If the offering pursuant to such registration is to be on any other basis, then each holder making a request for an Incidental Registration pursuant to this Section 2.3(a) must participate in such offering on such basis.

(iii) Each holder of Registrable Securities shall be permitted to withdraw all or part of such holder's Registrable Securities from an Incidental Registration at any time prior to the effective date thereof; *provided*, that the Company shall be entitled to reimbursement from the holder of such withdrawn Registrable Securities for any SEC registration fees incurred by the Company in connection with the registration of such withdrawn Registrable Securities.

(b) Priority of Incidental Registration. If the managing underwriter or underwriters of any proposed Underwritten Offering of a class of securities included in an Incidental Registration (or in the case of an Incidental Registration not being underwritten, the Company) informs the holders of Registrable Securities of any class sought to be included in such registration in writing that, in its or their opinion, the total amount or kind of securities which such holders and any other Persons intend to include in such offering exceeds the number which can be sold in such offering without being likely to have a significant adverse effect on the price, timing or distribution of the class or classes of the securities offered or the market for the class or classes of securities offered or the Company's publicly traded capital stock, then the securities of each class to be included in such registration shall be allocated as follows:

- (i) *first*, 100% of the securities that the Company or (subject to Section 2.7) any Person (other than a holder of Registrable Securities) exercising a contractual right to demand registration has proposed to sell shall be included therein;
- (ii) *second*, and only if all the securities referenced in clause (i) have been included, the number of Registrable Securities of such class that, in the opinion of such underwriter or underwriters (or in the case of an Incidental Registration not being underwritten, the

Company), can be sold without having such adverse effect shall be included therein, with such number to be allocated *pro rata* among the holders which have requested participation in the Incidental Registration (based, for each such holder, on the percentage derived by dividing (x) the number of Registrable Securities of such class which such holder has requested to include in such Incidental Registration by (y) the aggregate number of Registrable Securities of such class which all such holders have requested to include); and

- (iii) *third* and only if all of the Registrable Securities referenced in clauses (i) and (ii) have been included, any other securities eligible for inclusion in such registration shall be included therein.

#### 2.4. Black-out Periods.

(a) Black-out Periods for Holders. In the event of a registration by the Company involving the offering and sale by the Company of equity securities or securities convertible into or exchanged for its equity securities, the holders of Registrable Securities agree, if requested by the Company (or, in the case of an Underwritten Offering, by the managing underwriter or underwriters), not to effect any public sale or distribution (including any sale pursuant to Rule 144 under the Securities Act) of any securities (except, in each case, as part of the applicable registration, if permitted hereunder or otherwise) that are the same as or similar to those being registered in connection with such registration, or which are convertible into or exchangeable or exercisable for such securities, during the period beginning on the date that is the earlier of (i) the receipt by such holder of information concerning the date for such offering and sale by the Company (if such information is then not otherwise known to the public), but in no event more than 30 days, or (ii) seven days before, and ending 180 days (or such lesser period as may be permitted by the Company or such managing underwriter or underwriters) after, the effective date of the Registration Statement filed in connection with such registration, to the extent such holders are timely notified in writing by the Company or the managing underwriter or underwriters; *provided* that the sale and distribution restrictions set forth above in this Section 2.4(a) shall apply only to the first two registrations by the Company described above or until the date that is the two year anniversary of the Effective Date, whichever is earlier.

(b) Black-out Period for the Company and Others. (i) In the case of a registration of Registrable Securities pursuant to Section 2.1 or 2.2, the Company agrees, if requested by the holders of a majority of Registrable Securities to be sold pursuant to the such registration (or, in the case of an Underwritten Offering, by the managing underwriter or underwriters in such Underwritten Offering), not to effect any public sale or distribution of any securities (except, in each case, as part of the applicable registration, if permitted) which are the same as or similar to those being registered, or which are convertible into or exchangeable or exercisable for such securities, during the period beginning seven days before, and ending 90 days (or such lesser period as may be permitted by such holders or such underwriter or

underwriters) after, the effective date of the Registration Statement filed in connection with such registration, to the extent the Company is timely notified in writing by a holder of Registrable Securities covered by such Registration Statement or the managing underwriter or underwriters. Notwithstanding the foregoing, the Company may effect a public sale or distribution of securities of the type described above and during the periods described above if the same is made (A) pursuant to any registration on Form N-14 or any successor form to such form, (B) in connection with a direct or indirect acquisition by the Company of another Person or (C) pursuant to an effective shelf registration under Rule 415 of the Securities Act.

(ii) The Company agrees to use all reasonable efforts to obtain from each holder of restricted securities of the Company which are the same as or similar to those being registered by the Company, or which are convertible into or exchangeable or exercisable for any of its securities, an agreement not to effect any public sale or distribution of such securities (other than securities purchased in a public offering) during any period referred to in this Section 2.4(b), except as part of any such registration if permitted. Without limiting the foregoing (but subject to Section 2.7), if after the date hereof the Company grants any Person (other than a holder of Registrable Securities) any rights to demand or participate in a registration, the Company agrees that the agreement with respect thereto shall include such Person's agreement as contemplated by the previous sentence.

#### 2.5. Registration Procedures.

(a) In connection with the Company's registration obligations in this Agreement, the Company will, subject to the limitations set forth herein, use its reasonable best efforts to effect any such registration so as to permit the sale of the applicable Registrable Securities in accordance with the intended method or methods of distribution thereof as expeditiously as reasonably practicable, and in connection therewith the Company will:

(i) before filing a Registration Statement or Prospectus, or any amendments or supplements thereto and in connection therewith, furnish to the underwriter or underwriters, if any, and to the holders of Registrable Securities covered by such Registration Statement, copies of all documents prepared to be filed, which documents will be subject to the review of such underwriters and such holders and their respective counsel;

(ii) prepare and file with the SEC such amendments or supplements to the applicable Registration Statement or Prospectus as may be (A) reasonably requested by any participating holder (to the extent such request relates to information relating to such holder) or (B) necessary to keep such registration effective for the period of time required by this Agreement;

(iii) notify the selling holders of Registrable Securities and the managing underwriter or underwriters, if any, and (if requested) confirm such advice in writing, as soon as reasonably practicable after notice thereof is received by the Company, (A) when the applicable Registration Statement or any amendment thereto has been filed or becomes effective and when the applicable Prospectus or any amendment or supplement thereto has been filed, (B)

of any written comments by the SEC or any request by the SEC or any other federal or state governmental authority for amendments or supplements to such Registration Statement or Prospectus or for additional information, (C) of the issuance by the SEC of any stop order suspending the effectiveness of such Registration Statement or any order preventing or suspending the use of any preliminary or final Prospectus or the initiation or threat of any proceedings for such purposes and (D) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for offering or sale in any jurisdiction or the initiation or threat of any proceeding for such purpose;

(iv) promptly notify each selling holder of Registrable Securities and the managing underwriter or underwriters, if any, when the Company becomes aware of the happening of any event as a result of which the applicable Registration Statement or Prospectus (as then in effect) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein (in the case of the Prospectus and any preliminary Prospectus, in light of the circumstances under which they were made) not misleading or, if for any other reason it shall be necessary to amend or supplement such Registration Statement or Prospectus in order to comply with the Securities Act and, in either case as promptly as reasonably practicable thereafter, prepare and file with the SEC an amendment or supplement to such Registration Statement or Prospectus which will correct such statement or omission or effect such compliance;

(v) make every reasonable effort to prevent, or obtain at the earliest possible moment the withdrawal of, any stop order with respect to, the applicable Registration Statement or other order suspending the use of any preliminary or final Prospectus;

(vi) promptly incorporate in a Prospectus supplement or post-effective amendment to the applicable Registration Statement such information as the managing underwriter or underwriters, if any, or the holders of a majority of the Registrable Securities being sold agree should be included therein relating to the plan of distribution with respect to such Registrable Securities; and make all required filings of such Prospectus supplement or post-effective amendment as soon as reasonably practicable after being notified of the matters to be incorporated in such Prospectus supplement or post-effective amendment;

(vii) furnish to each selling holder of Registrable Securities and each managing underwriter, if any, without charge, as many conformed copies as such holder or managing underwriter may reasonably request of the applicable Registration Statement;

(viii) deliver to each selling holder of Registrable Securities and each managing underwriter, if any, without charge, as many copies of the applicable Prospectus (including each preliminary Prospectus) as such holder or managing underwriter may reasonably request (it being understood that the Company consents to the use of the Prospectus by each of the selling holders of Registrable Securities and the underwriter or underwriters, if any, in connection with the offering and sale of the Registrable Securities covered by the Prospectus);

(ix) on or prior to the date on which the applicable Registration Statement is declared effective, use its reasonable best efforts to register or qualify such Registrable Securities for offer and sale under the securities or “Blue Sky” laws of each state and other jurisdiction of the United States, as any such selling holder or underwriter, if any, or their respective counsel reasonably requests in writing, and do any and all other acts or things reasonably necessary or advisable to keep such registration or qualification in effect so as to permit the commencement and continuance of sales and dealings in such jurisdictions for as long as may be necessary to complete the distribution of the Registrable Securities covered by the Registration Statement; *provided* that the Company will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to taxation or general service of process in any such jurisdiction where it is not then so subject;

(x) cooperate with the selling holders of Registrable Securities and the managing underwriter, underwriters or agent, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any restrictive legends;

(xi) not later than the effective date of the applicable Registration Statement, provide a CUSIP number for all Registrable Securities and provide the applicable transfer agent with printed certificates for the Registrable Securities, if required, which certificates shall be in a form eligible for deposit with The Depository Trust Company;

(xii) obtain for delivery to the holders of Registrable Securities being registered and to the underwriter or underwriters, if any, an opinion or opinions from counsel for the Company dated the effective date of the Registration Statement or, in the event of an Underwritten Offering, the date of the closing under the underwriting agreement, in customary form, scope and substance, which counsel and opinions shall be reasonably satisfactory to a majority of the holders of Registrable Securities being registered and the underwriter or underwriters, if any, and their respective counsel;

(xiii) in the case of an Underwritten Offering, obtain for delivery to the Company and the underwriter or underwriters, if any, with copies to the holders of Registrable Securities included in such registration, a cold comfort letter from the Company’s independent certified public accountants in customary form and covering such matters of the type customarily covered by cold comfort letters as the managing underwriter or underwriters reasonably request, dated the date of execution of the underwriting agreement and brought down to the date of the closing under the underwriting agreement;

(xiv) cooperate with each seller of Registrable Securities and each underwriter or agent, if any, participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the NASD;

(xv) use its reasonable best efforts to comply with all applicable rules and regulations of the SEC and make generally available to its security holders, as soon as

reasonably practicable (but not more than 15 months) after the effective date of the applicable Registration Statement, an earnings statement satisfying the provisions of Section 11 (a) of the Securities Act and the rules and regulations promulgated thereunder;

(xvi) provide and cause to be maintained a transfer agent and registrar for all Registrable Securities covered by the applicable Registration Statement from and after a date not later than the effective date of such Registration Statement;

(xvii) cause all Registrable Securities of the class covered by the applicable Registration Statement to be listed on each securities exchange on which any of the Company's securities of such class are then listed and on each interdealer quotation system on which any of the Company's securities of such class are then quoted;

(xviii) make available upon reasonable notice at reasonable times and for reasonable periods for inspection by a representative appointed by the holders of a majority of the Registrable Securities covered by the applicable Registration Statement, by any managing underwriter or underwriters participating in any disposition to be effected pursuant to such Registration Statement and by any attorney, accountant or other agent retained by such sellers or any such managing underwriter, all pertinent financial and other records, pertinent corporate documents and properties of the Company, and cause all of the Company's officers, directors and employees and the independent public accountants who have certified its financial statements to make themselves reasonably available to discuss the business of the Company and to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such Registration Statement as shall be necessary to enable them to exercise their due diligence responsibility (subject to the entry by each party referred to in this clause (xviii) into customary confidentiality agreements in a form reasonably acceptable to the Company); and

(xix) in the case of an Underwritten Offering, cause the senior executive officers of the Company to participate in the customary "road show" presentations that may be reasonably requested by the managing underwriter in any such Underwritten Offering and otherwise to facilitate, cooperate with, and participate in each proposed offering contemplated herein and customary selling efforts related thereto.

(b) The Company may require each selling holder of Registrable Securities as to which any registration is being effected to furnish to the Company such information regarding the distribution of such Registrable Securities and such other information relating to such holder and its ownership of the applicable Registrable Securities as the Company may from time to time reasonably request. Each holder of Registrable Securities agrees to furnish such information to the Company and to cooperate with the Company as necessary to enable the Company to comply with the provisions of this Agreement. The Company shall have the right to exclude any holder that does not comply with the preceding sentence from the applicable registration.

(c) Each holder of Registrable Securities agrees by acquisition of such Registrable Securities that, upon receipt of any notice from the Company of the happening of any

event of the kind described in Section 2.5(a)(iv), such holder shall discontinue disposition of its Registrable Securities pursuant to such Registration Statement until such holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 2.5(a)(iv), or until such holder is advised in writing by the Company that the use of the Prospectus may be resumed, and has received copies of any additional or supplemental filings that are incorporated by reference in the Prospectus, and, if so directed by the Company, such holder shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such holder's possession, of the Prospectus covering such Registrable Securities which are current at the time of the receipt of such notice. In the event that the Company shall give any such notice in respect of a Demand Registration, the period during which the applicable Registration Statement is required to be maintained effective shall be extended by the number of days during the period from and including the date of the giving of such notice to and including the date when each seller of Registrable Securities covered by such Registration Statement either receives the copies of the supplemented or amended Prospectus contemplated by Section 2.5(a)(iv) or is advised in writing by the Company that the use of the Prospectus may be resumed.

2.6. Underwritten Offerings.

(a) Underwriting Agreements. If requested by the underwriters for any Underwritten Offering requested by the Company or the holders pursuant to Section 2.1, 2.2 or 2.3, the Company and the holders of Registrable Securities to be included therein shall enter into an underwriting agreement with such underwriters, such agreement to be reasonably satisfactory in substance and form to the Company, the holders of majority of the Registrable Securities to be included in such Underwritten Offering and the underwriters, and to contain such terms and conditions as are customary in agreements of that type, including, without limitation, indemnities no less favorable to the recipient thereof than those provided in Section 2.9. The holders of any Registrable Securities to be included in any Underwritten Offering pursuant to Section 2.3 shall enter into such an underwriting agreement at the request of the Company. No holder shall be required in any such underwriting agreement to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such holder, ownership of such holder's Registrable Securities, such holder's intended method of distribution, any other representations required by law and customary indemnity and contribution agreements.

(b) Participation in Underwritten Registrations. No Person may participate in an Underwritten Offering unless such Person (i) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Persons entitled to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

2.7. No Inconsistent Agreements; Additional Rights. The Company shall not enter into, and is not currently a party to, any agreement which is inconsistent with the rights granted to the holders of Registrable Securities by this Agreement.



2.8. Registration Expenses. The Company shall pay all of the expenses set forth in the following sentence in connection with the registration pursuant to this Agreement of Registrable Securities. Such expenses are: (i) all registration and filing fees, and any other fees and expenses associated with filings required to be made with the SEC or the NASD, (ii) all fees and expenses of compliance with state securities or “Blue Sky” laws, (iii) all printing, duplicating, word processing, messenger, telephone, facsimile and delivery expenses (including expenses of printing certificates for the Registrable Securities in a form eligible for deposit with The Depository Trust Company and of printing prospectuses), (iv) all fees and disbursements of counsel for the Company and of all independent certified public accountants of the Company, (v) all fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange or the quotation of the Registrable Securities on any interdealer quotation system and (vi) in connection with such registration, that portion of the marketing or “roadshow” expenses incurred by the holders or the Company in any offering of Registrable Securities as are not paid by the underwriters of such offering. In addition, in all cases the Company shall pay its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any audit and the fees and expenses of any Person, including special experts, retained by the Company. The Company shall also pay all reasonable fees and disbursements of one law firm or other counsel selected by the holders of a majority of the Registrable Securities being registered, such counsel to be reasonably acceptable to the Company. The Company shall not be required to pay any other costs or expenses in the course of the transactions contemplated hereby, including underwriting discounts and commissions and transfer taxes attributable to the sale of Registrable Securities, all of which costs and expenses shall be borne proportionately by the holders of Registrable Securities, covered by the applicable Registration Statement in accordance with the number of Registrable Securities each such holder is registering, and the fees and expenses of counsel to the underwriters, which shall be borne by the underwriters.

2.9. Indemnification.

(a) Indemnification by the Company. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, each holder of Registrable Securities and their respective officers, directors, advisors, agents and employees and each Person who controls (within the meaning of the Securities Act or the Exchange Act) such Persons from and against any and all losses, claims, damages, liabilities (or actions or proceedings in respect thereof, whether or not such indemnified party is a party thereto) and expenses (including reasonable costs of investigation and legal expenses), joint or several (each, a “Loss” and collectively “Losses”), arising out of or based upon (i) any untrue or alleged untrue statement of a material fact contained in any Registration Statement under which such Registrable Securities were registered under the Securities Act (including any final, preliminary or summary Prospectus contained therein or any amendment thereof or supplement thereto or any documents incorporated by reference therein) or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Prospectus or preliminary Prospectus, in light of the circumstances under which they were made) not misleading; *provided, however*, that the Company shall not be liable to an indemnified

party in any such case to the extent that any such Loss arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any such Registration Statement in reliance upon and in conformity with written information furnished to the Company by such indemnified party expressly for use in the preparation thereof; and *provided, further*, that the Company will not be liable to any indemnified party in any case to the extent that any such Loss arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any final, preliminary or summary Prospectus if such untrue statement or alleged untrue statement or omission or alleged omission is corrected in an amendment or supplement to such Prospectus which has been made available to the holders and the relevant holder of Registrable Securities fails to deliver such Prospectus as so amended or supplemented, if such delivery is required under applicable law or the applicable rules of any securities exchange, prior to or concurrently with the sales of the Registrable Securities to the Person asserting such loss, claim, damage, liability or expense. This indemnity shall be in addition to any liability the Company may otherwise have.

(b) Indemnification by the Holders. Each selling holder of Registrable Securities agrees (severally and not jointly) to indemnify and hold harmless, to the full extent permitted by law, the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act and the Exchange Act) from and against any Losses resulting from any untrue statement of a material fact or any omission of a material fact that is provided by such selling holder and that is (i) required to be stated in the Registration Statement under which such Registrable Securities were registered under the Securities Act (including any final, preliminary or summary Prospectus contained therein or any amendment thereof or supplement thereto or any documents incorporated by reference therein), or (ii) necessary to make the statements therein (in the case of a Prospectus or preliminary Prospectus, in light of the circumstances under which they were made) not misleading, in each case to the extent, but only to the extent, that such untrue statement or omission had been contained in any information furnished in writing by such selling holder to the Company specifically for inclusion in such Registration Statement. This indemnity shall be in addition to any liability such holder may otherwise have. In no event shall the liability of any selling holder of Registrable Securities hereunder be greater in amount than the dollar amount of the proceeds received by such holder under the sale of the Registrable Securities giving rise to such indemnification obligation. The Company shall be entitled to receive indemnities from, if applicable and if requested, underwriters, selling brokers, dealer managers and similar securities industry professionals participating in the distribution, to the same extent as provided above (with appropriate modification) with respect to information so furnished in writing by such Persons specifically for inclusion in any Prospectus or Registration Statement. Each holder also shall indemnify any underwriters of the Registrable Securities, their officers and directors and each Person who controls such underwriters (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the Company.

(c) Conduct of Indemnification Proceedings. Any Person entitled to indemnification hereunder shall (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) permit such indemnifying party to

assume the defense of such claim with counsel reasonably satisfactory to the indemnified party; *provided, however*, that any Person entitled to indemnification hereunder shall have the right to select and employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such Person unless (A) the indemnifying party has agreed in writing to pay such fees or expenses, (B) the indemnifying party shall have failed to assume the defense of such claim within a reasonable time after having received notice of such claim from the Person entitled to indemnification hereunder and to employ counsel reasonably satisfactory to such Person or (C) in the reasonable judgment of any such Person, based upon advice of its counsel, a conflict of interest may exist between such Person and the indemnifying party with respect to such claims (in which case, if the Person notifies the indemnifying party in writing that such Person elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such claim on behalf of such Person). If such defense is not assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent, but such consent may not be unreasonably withheld; *provided*, that an indemnifying party shall not be required to consent to any settlement involving the imposition of equitable remedies or involving the imposition of any material obligations on such indemnifying party other than financial obligations for which such indemnified party shall be indemnified hereunder. If the indemnifying party assumes the defense, the indemnifying party shall have the right to settle such action without the consent of the indemnified party; *provided*, that the indemnifying party shall be required to obtain such consent (which consent shall not be unreasonably withheld) if the settlement includes any admission of wrongdoing on the part of the indemnified party or any restriction on the indemnified party or its officers or directors. No indemnifying party shall consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to each indemnified party of an unconditional release from all liability in respect to such claim or litigation. The indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any one time from all such indemnified party or parties unless (x) the employment of more than one counsel has been authorized in writing by the indemnifying party or parties or (y) a conflict or potential conflict exists or may exist (based on advice of counsel to an indemnified party) between such indemnified party and the other indemnified parties, in each of which cases the indemnifying party shall be obligated to pay the reasonable fees and expenses of such additional counsel or counsels.

(d) Contribution. If for any reason the indemnification provided for in the paragraphs (a) and (b) of this Section 2.9 is unavailable to an indemnified party or insufficient to hold it harmless as contemplated by paragraphs (a) and (b) of this Section 2.9, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such Loss in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or the indemnified party and the parties' relative

intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. Notwithstanding anything in this Section 2.9(d) to the contrary, no indemnifying party (other than the Company) shall be required pursuant to this Section 2.9(d) to contribute any amount in excess of the amount by which the net proceeds received by such indemnifying party from the sale of Registrable Securities in the offering to which the Losses of the indemnified parties relate exceeds the amount of any damages which such indemnifying party has otherwise been required to pay by reason of such untrue statement or omission. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 2.9(d) were determined by *pro rata* allocation or by any other method of allocation that does not take account of the equitable considerations referred to above. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. If indemnification is available under this Section 2.9, the indemnifying parties shall indemnify each indemnified party to the full extent provided in Sections 2.9(a) and 2.9(b) hereof without regard to the relative fault of said indemnifying parties or indemnified party.

(e) Notwithstanding any other provision of this Section 2.9, no party shall be entitled to indemnification or contribution under this Agreement in violation of Section 17(i) of the Investment Company Act.

2.10. Rules 144 and 144A. The Company covenants that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of any holder of Registrable Securities after the transfer date, make publicly available other information so long as necessary to permit sales pursuant to Rule 144 or 144A under the Securities Act, *provided*, that the Company shall not be required to make any Adverse Disclosure), and it will take such further action as any holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 or 144A under the Securities Act, as such Rules may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the SEC.

### SECTION 3. MISCELLANEOUS

3.1. Term. This Agreement shall terminate upon the earlier of (i) the 10<sup>th</sup> anniversary of the date of this Agreement or (ii) with respect to each holder of Registrable Securities, the date as of which (A) all of the Registrable Securities of such holder have been sold pursuant to a Registration Statement (but in no event prior to the applicable period referred to in Section 4(3) of the Securities Act and Rule 174 thereunder) or (B) such holder is permitted to sell its Registrable Securities under Rule 144(k) under the Securities Act (or any similar provision then in force permitting the sale of restricted securities without limitation on the amount of securities sold or the manner of sale). The provisions of Section 2.9 and Section 2.10 shall survive any termination of this Agreement.

3.2. Notices. Except as otherwise provided herein, whenever this Agreement provides that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by another, or whenever any of the parties desires to give or serve upon another any communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be deemed to have been given upon personal delivery thereof, transmittal of such notice by telecopy (with confirmation of receipt by telecopy or telex) or five days after transmittal by registered or certified mail, postage prepaid, addressed as follows:

If to Company:

PennantPark Investment Corporation  
445 Park Avenue, 10<sup>th</sup> Floor  
New York, NY 10022  
Attention: Chief Financial Officer  
Telecopier: (212) 307-3290

with a copy to:

Dechert LLP  
1775 I Street, N.W.  
Washington, D.C. 20006  
Attention: Thomas J. Friedmann  
Telecopier: (202) 261-3333

If to Investors:

- (1) PennantPark Investment Advisers, LLC  
445 Park Avenue, 10<sup>th</sup> Floor  
New York, NY 10022  
Attention: Arthur H. Penn, Managing Member  
Telecopier: (212) 307-3290

with a copy to:

Dechert LLP  
1775 I Street, N.W.  
Washington, D.C. 20006  
Attention: Thomas J. Friedmann  
Telecopier: (202) 261-3333

- (2) Adam K. Bernstein

- (3) Marshall Brozost

- (4) Jeffrey Flug
- (5) Samuel L. Katz
- (6) Aviv Efrat
- (7) Geoffrey S. Chang
- (8) Salvatore Gianetti III
- (9) P. Whitridge Williams, Jr.

The addresses set forth above may be changed by any party upon furnishing to the other party a notice of change of address in accordance with the terms of this paragraph.

3.3. Successors, Assigns and Transferees. (a) The registration rights of any holder under this Agreement with respect to any Registrable Securities may be transferred and assigned, *provided* that no such assignment shall be binding upon or obligate the Company to any such assignee unless and until (i) the Company shall have received notice of such assignment as herein provided and a written agreement of the assignee to be bound by the provisions of this Agreement and (ii) such assignee acquires Registrable Securities with an estimated aggregate market value of \$100,000 or more. Any transfer or assignment made other than as provided in the first sentence of this Section 3.3 shall be null and void.

(b) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

3.4. Governing Law; Service of Process; Consent to Jurisdiction. (a) This agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

(b) To the fullest extent permitted by applicable law, each party hereto (i) agrees that any claim, action or proceeding by such party seeking any relief whatsoever arising out of, or in connection with, this Agreement or the transactions contemplated hereby shall be brought only in the United States District Court for the Southern District of New York and in any New York State court located in the Borough of Manhattan and not in any other State or Federal court in the United States of America or any court in any other country, (ii) agrees to submit to the exclusive jurisdiction of such courts located in the State of New York for purposes of all legal proceedings arising out of, or in connection with, this Agreement or the transactions contemplated hereby and (iii) irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

3.5. Headings. The section and paragraph headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

3.6. Severability. Whenever possible, each provision or portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained therein.

3.7. Amendment; Waiver.

(a) This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement signed by the Company and the holders of a majority of Registrable Securities then outstanding. Each holder of any Registrable Securities at the time or thereafter outstanding shall be bound by any amendment, modification, waiver or consent authorized by this Section 3.7(a), whether or not such Registrable Securities shall have been marked accordingly.

(b) The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach. Except as otherwise expressly provided herein, no failure on the part of any party to exercise, and no delay in exercising, any right, power or remedy hereunder, or otherwise available in respect hereof at law or in equity, shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

3.8. Specific Performance. The Company acknowledges that the rights granted to the Investors hereunder are unique and that the Investors will not have an adequate remedy at law if the Company breaches any covenant contained herein or fails to perform any of its obligations under this Agreement. Accordingly, the Company agrees that the Investors shall have the right, in addition to any other rights which they may have, to specific performance and equitable injunctive relief if the Company shall fail or threaten to fail to perform any of its obligations under this Agreement.

3.9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original, but all of which together shall constitute one and the same Agreement.

3.10. Entire Agreement. This Agreement constitutes the entire agreement between the Company and the Investors with respect to the matters covered herein and supersedes any prior negotiations, understandings or agreements with respect to the matters contemplated hereby.



**Consent of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders  
PennantPark Investment Corporation

We consent to the use of our report dated December 12, 2007 for the PennantPark Investment Corporation and to the references to our firm under the headings “Selected Financial Data”, “Senior Securities”, and “Independent Registered Public Accounting Firm” in the registration statement on Form N-2.

/s/ KPMG LLP

New York, New York

April 1, 2008

**Awareness Letter of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
PennantPark Investment Corporation:

Re: Investment Company Act of 1940 File No. 814-00736.

With respect to the subject registration statement, we acknowledge our awareness of the use therein of our report dated February 8, 2008 related to our review of interim financial information.

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

/s/ KPMG LLP

New York, New York  
April 1, 2008