

PENNANTPARK INVESTMENT CORP  
Form 10-K  
November 20, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 814-00736

**PENNANTPARK INVESTMENT CORPORATION**

(Exact name of registrant as specified in its charter)

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**MARYLAND**  
(State or other jurisdiction)  
**20-8250744**  
(I.R.S. Employer  
Identification No.)  
of incorporation or organization)  
**590 Madison Avenue,**  
**15<sup>th</sup> Floor New York, N.Y.**  
(Address of principal executive offices)  
**10022**  
(Zip Code)  
**Registrant's telephone number, including area code (212)-905-1000**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.001 per share	The NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

The aggregate market value of common stock held by non-affiliates of the Registrant on September 30, 2008 based on the closing price on that date of \$7.41 on the NASDAQ Global Select Market was approximately \$156.1 million. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 21,068,772 shares of the Registrant's common stock outstanding as of December 1, 2008.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement relating to the Registrant's 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Report.



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**FORM 10-K**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

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**PART I**

*In this annual report on Form 10-K, PennantPark Investment, we, us and our refer to PennantPark Investment Corporation. Some of the statements in this annual report constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements involve risks and uncertainties and our actual results could differ materially from those projected in the forward-looking statements for any reason, including those factors discussed in Risk Factors and elsewhere in this report.*

**Item 1. Business**  
**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 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 ("RIC"), under the Internal Revenue Code of 1986, as amended (the "Code").

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt and to a lesser extent, equity investments. In the current credit environment, we also intend to invest selectively in senior secured loans, which we believe offer attractive risk-adjusted yields and consider them a part of our core holdings at the present time.

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

We are currently operating in a severely constrained credit market. Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. The turmoil in the credit markets is adversely affecting many of these factors and has resulted in broad-based reduction in the demand for, and valuation of, high-risk debt instruments. These conditions may present us with attractive investment opportunities, as we believe that there are many middle-market companies with strong financial characteristics that need senior secured and mezzanine debt financing. However, these market conditions are also adversely affecting our portfolio valuations and increase the risk of default among our portfolio companies, which could negatively impact our performance.

For the fiscal year ended September 30, 2008, we purchased \$206.8 million of investments issued by fourteen new and two existing portfolio companies with an overall average yield of 13.8% on debt investments. This compares to purchasing \$144.4 million of investments, issued by eight new and five existing portfolio companies with an overall average yield of 13.0% on debt investments during the period April 24, 2007 (the date of our initial public offering) to September 30, 2007. For the three months ended September 30, 2008, we purchased \$57.4 million of investments issued by three new portfolio companies with an overall average yield of 14.2% on debt investments. This compares to purchasing \$41.3 million of investments issued by one new and

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five existing portfolio companies with an overall average yield of 15.2% on debt investments during the same period last year. For the fiscal year and quarter ended September 30, 2008, the repayments and sale of senior secured loans generated proceeds of \$70.1 million and \$55.7 million, respectively.

We did not experience compromised liquidity during the recent turmoil in the global credit markets because of our ability to sell loans from our senior secured portfolio and availability under our credit facility. If the valuations of our portfolio companies continue to decline from their present values, we may suffer reduced availability under our credit facility because such availability depends on our asset coverage, which generally requires that the valuation of our total assets be at least equal to 200% of our total liabilities.

As of September 30, 2008, our portfolio totaled \$372.1 million and consisted of \$166.2 million of subordinated debt, \$104.2 million of second lien secured debt, \$22.9 million of equity investments and \$78.8 million of senior secured loans. Our core assets totaled \$305.5 million and consisted of investments in nineteen different companies with an average investment size of \$16.1 million per company and a weighted average yield of 12.5% on debt investments. Our non-core senior secured loan portfolio totaled \$66.6 million and consisted of nineteen different companies (including one company also in our core portfolio) with an average investment size of \$3.5 million, and a weighted average yield of 5.2%. 45% of our debt portfolio was in fixed-rate and 55% in variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$72.0 million. Our overall portfolio consisted of thirty-seven companies with an average investment size of \$10.1 million and a weighted average yield on debt investments of 11.1%, and was invested 45% in subordinated debt, 28% in second lien secured debt, 6% in preferred and common equity investments and 21% in senior secured loans.

As of September 30, 2007, our portfolio totaled \$291.0 million and 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 debt investments. Our non-core 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%. 15% of our debt portfolio was in fixed-rate and 85% in variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$23.9 million. Our overall portfolio consisted of thirty-eight companies with an average investment size of \$7.6 million and a weighted average yield on debt investments of 10.1%, and was invested 20% in subordinated debt, 23% in second lien secured debt, 2% in common equity investments and 55% in senior secured loans.

## **Information Available**

Our address is 590 Madison Avenue, 15th Floor, New York, NY 10022. Our phone number is (212) 905-1000 and our internet address is [www.pennantpark.com](http://www.pennantpark.com). We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission, or SEC. Information contained on our website is not incorporated by reference into this annual report on Form 10-K and you should not consider information contained on our website to be part of this annual report on Form 10-K or any other report we file with the SEC.

## **Operating Structure**

Our investment activities are managed by PennantPark Investment Advisers, LLC (the Investment Adviser or 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 Business Investment Management Agreement.

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We have also entered into an Administration Agreement with PennantPark Investment Administration, LLC (the Administrator or 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. See Business 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 22 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, provided 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 22-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 provides 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 47 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

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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 other 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 over 14 years of 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. Guy Talarico, 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 with various organizations in the areas of equity and fixed-income portfolio management, money market trading and custody.

In addition to furnishing us with office facilities, equipment, 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 offer and provide assistance. See [Risk Factors](#) [Risk Relating to our Business and Structure](#).

## **Market Opportunity**

We believe that the size of the middle-market, coupled with the demands of middle-market 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 or through bank borrowing, we believe these approaches to financing have become more difficult as Institutional investors have sought to invest in larger, more liquid offerings and banks have sharply curtailed lending in recent months. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield debt securities or borrowing from banks. In addition, many private finance companies that, until recently, financed their lending and investing activities through securitization transactions have lost that source of funding and cut back lending significantly.

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

We believe there is a large pool of uninvested private equity capital likely to seek mezzanine capital to support private investments. While we expect the rate of investment to be slower than in prior periods, we believe 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 believe that opportunities to invest mezzanine, senior secured 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.



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### **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 pursue short-term origination targets. We believe our approach enables 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 Selection](#) and [Business 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 the 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 continue to enable us to invest throughout various stages of the economic cycle and to 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

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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 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 lending 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 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.

## **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 primarily of mezzanine debt, senior secured loans and, to a lesser extent, equity investments in qualifying assets such as private or thinly traded or low-market-cap, public middle-market U.S. companies. In addition, we may invest up to 30% of our portfolio in non-qualifying assets. See **Regulation** **Qualifying Assets**. These investments may include investments in public companies whose securities are not thinly traded or do not have a market cap of less than \$250 million, securities of middle-market companies located outside of the United States and investment companies as defined in the 1940. 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 continue to 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 **Business** **Investment Selection**.

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.

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**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 borrower's capital structures. 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.

**Senior Secured Debt**

Structurally, senior secured debt (which includes first lien debt) ranks senior in priority of payment to mezzanine debt and equity, and usually benefits from a senior collateral interest in the borrower. As such, other creditors rank junior to our investments in these securities in the event of insolvency. Due to its lower risk profile and often more restrictive covenants as compared to mezzanine debt, senior secured debt generally earns a lower return than mezzanine debt. In some cases senior secured lenders receive opportunities to invest directly in the equity investment 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.

**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 and Defense	Home and Office Furnishings, Housewares and Durable Consumer Products
Auto Sector	Insurance
Broadcasting and Entertainment	Leisure, Amusement, Motion Pictures, Entertainment
Buildings and Real Estate	Manufacturing/Basic Industry
Business Services	Media
Cable Television	Oil and Gas
Cargo Transport	Other Media
Chemicals, Plastics and Rubber	Printing and Publishing
Consumer Products	Telecommunications
Containers, Packaging and Glass	Retail Store
Education	Transportation
Energy/Utilities	Utilities
Healthcare, Education and Childcare	

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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:

<b>Portfolio Company</b>	<b>September 30, 2008</b>	<b>Portfolio Company</b>	<b>September 30, 2007</b>
i2 Holdings, LTD.	7%	Realogy Corp.	7%
UP Acquisition Sub Inc.	7%	Saint Acquisition Corp.	7%
Brand Energy and Infrastructure Services, Inc.	6%	Advanstar, Inc.	6%
CT Technologies	6%	Affinion Group Holding, Inc.	6%
TZ Merger Sub, Inc.	6%	Performance Holdings, Inc.	6%
Affinion Group Holding, Inc.	5%	Specialized Technology Resources, Inc.	6%
IDQ Holdings, Inc.	5%	Charter Communications Operating, LLC	5%
Performance Holdings, Inc.	5%	Questex Media Group, Inc.	5%
Specialized Technology Resources, Inc.	5%	Univision Communications, Inc.	5%
TransFirst Holdings, Inc.	4%	TransFirst Holdings, Inc.	4%

<b>Industry</b>	<b>September 30, 2008</b>	<b>Industry</b>	<b>September 30, 2007</b>
Aerospace and Defense	10%	Other Media	15%
Other Media	10%	Consumer Products	8%
Business Services	8%	Buildings and Real Estate	7%
Oil and Gas	7%	Business Services	7%
Consumer Products	6%	Home and Office Furnishings, Housewares and Durable Consumer Products	7%
Energy / Utilities	6%	Transportation	7%
Healthcare, Education and Childcare	6%	Chemicals, Plastics and Rubber	6%
Insurance	6%	Leisure, Amusement, Motion Pictures, Entertainment	6%
Auto Sector	5%	Broadcasting and Entertainment	5%
Chemicals, Plastics and Rubber	5%	Cable Television	5%

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of investment company provided in Section 3(c) of the 1940 Act. 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 September 30, 2008, our portfolio consisted of thirty-seven companies and was invested 45% in subordinated debt, 28% in second lien secured debt, 6% in preferred and common equity investments and 21% in senior secured loans.

**Investment Selection**

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

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We have identified several criteria 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;

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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 the investment committee receive no compensation from us. These members are employees of our Investment Adviser and receive compensation from our Investment Adviser.

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

### ***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.



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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 core 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;

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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.

Unforeseen developments in the global credit markets have negatively impacted the market for leveraged finance instruments, resulting in a broad-based deterioration of asset values and a potential increase in defaults. A sharp or prolonged economic downturn or other general market disturbance, such as the high volatility in the value of the U.S. dollar or continued stress in the credit markets, may affect us and result in lower earnings and net asset values. If the market for our investments is substantially eroded, we may not find purchasers for our portfolio investments 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. For a discussion of our portfolio's performance, see Management Discussion and Analysis of Financial Condition and Results of Operations. For more information on the economic risks that may affect our performance, see Risk Factors - Risks Related to our Business and Structure.

### **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, but may receive compensation in the future.

### **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. Guy Talarico 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.

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### **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% on PennantPark Investment's gross assets (net of U.S. Treasury Bills and/or temporary draws on the Revolving Credit Facility (adjusted gross assets), if any) (see note 9 to our financial statements). Although the base management fee is 2.00% of adjusted gross assets, the Investment Adviser agreed to waive a portion of the base management fee such that the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007 and 1.75% from October 1, 2007 through March 31, 2008. The base management fee equals 2.00% after March 31, 2008 and is payable quarterly in arrears. 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. For the fiscal year ended September 30, 2008 and for the period from April 24, 2007 (initial public offering) through September 30, 2007, the Investment Adviser earned a base management fee, after fee waiver, of \$6.7 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 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 the Administration Agreement, and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with deferred interest feature (such as original issue discount, debt instruments with 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

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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.

Graphical Representation of Calculation of Quarterly Incentive Fee Based on Net Investment Income

*Pre-incentive fee net investment income*

*(expressed as a percentage of the value of net assets)*

Percentage of pre-incentive fee net investment income

allocated to income-related portion of incentive fee

The second part of the incentive fee, which commenced on December 31, 2007, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% of PennantPark Investment's realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year. This amount is 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 was 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 fiscal year ended September 30, 2008, the Investment Adviser earned \$3.8 million in incentive fees. For the period from April 24, 2007 (initial public offering) through September 30, 2007, the Adviser did not receive an Incentive Fee.

**Examples of Quarterly Incentive Fee Calculation**

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

**Alternative 1**

*Assumptions*

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

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

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

Pre-Incentive Fee Net Investment Income

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

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



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**Alternative 2**

*Assumptions*

Investment income (including interest, distributions, fees, etc.) = 2.70%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

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

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 2.00%

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

**Alternative 3**

*Assumptions*

Investment income (including interest, distributions, fees, etc.) = 3.00%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

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

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 2.30%

Incentive fee = 20% x Pre-Incentive Fee Net Investment Income, subject to catch-up

Incentive fee = 100% x catch-up + (20% x (Pre-Incentive Fee Net Investment Income - 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)

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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 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 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.

***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, 15th Floor, New York, NY 10022.

***Administration Agreement***

Pursuant to the Administration Agreement, the Administrator furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Under our Administration Agreement,



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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 fiscal year ended September 30, 2008 and for the period from April 24, 2007 (initial public offering) to September 30, 2007, the Investment Adviser was reimbursed \$2.0 million and approximately \$490,000, respectively, from PennantPark Investments, 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.

## **REGULATION**

### **General**

We are a business development company under the 1940 Act and have 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 investments, 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

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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 under the 1940 Act to include 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 is excluded from the definition of an investment company by Section 3(c) of the 1940 Act; and
  - (c) does not have any class of securities listed on a national securities exchange; has any class of Securities listed on a national securities exchange subject to a market capitalization maximum of \$250.0 million; or is controlled by us and has one of our affiliates as a director.
- (2) Securities of any eligible portfolio company which we control.
- (3) Securities purchased in a private transaction from a U.S. operating company or from an affiliated person of the issuer, or in transactions incident thereto, if such 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)

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

Effective July 2008, the definition of eligible portfolio company expanded to include any domestic operating company that has a class of securities listed on a national securities exchange provided it has a market capitalization of less than \$250 million. Market capitalization will be calculated using the price at which the portfolio company's common equity is last sold, or the average of the bid and ask prices of the portfolio company's common equity, in the principal market for such common equity on any day in the 60-day period immediately before the acquisition of its securities.

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### **Code of Ethics**

We and PennantPark Investment Advisers have adopted a joint 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 a copy of our code of ethics on our website at <http://www.pennantpark.com>.

### **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 maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

### **Compliance Policies and Procedures**

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 by law 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 have each adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws, we review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and we 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;

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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 controls 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 continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and continue to take actions necessary to ensure that we are in compliance with that act.

## **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. 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 may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% 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 or to provide us with additional liquidity.

## **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 may elect to retain such income, and pay such tax, for investment purposes or to provide us with additional liquidity.

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;



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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:

- a) 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
- b) 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. 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

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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.

**Item 1A. Risk Factors**

An investment in our shares involves substantial risks relating to our structure and investment objectives, including those described below. 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 and you may lose all or part of your investment.

**RISKS RELATING TO OUR BUSINESS AND STRUCTURE**

**The capital markets are currently experiencing a period of dislocation and instability. These market conditions have materially and adversely affected debt and equity capital markets in the United States, which has had and could continue to have a negative impact on our business and operations.**

We believe that the dramatic deflation of asset valuations due in large part to the collapse of the subprime lending market has caused a general disruption in the U.S. capital markets. This collapse is evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the U.S. federal government, these events have contributed to worsening general economic conditions that are materially and adversely impacting the broader financial and credit markets and reducing the availability of debt and equity capital for the market as a whole and for financial services firms in particular. These conditions could persist for a prolonged period of time or worsen in the future. Meanwhile, equity capital may be difficult to raise because, subject to some limited exceptions, we are not generally able to issue and sell our common stock at a price below net asset value per share. In addition, the debt capital that will be available, if at all, may be at a higher cost, and on less favorable terms and conditions in the future.

Reflecting the concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases ceased to provide, funding to borrowers, including other financial institutions. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could materially and adversely affect our business, financial condition, results of operations and our ability to obtain and manage our liquidity. Price declines and illiquidity in the corporate debt markets have adversely affected, and may continue to adversely affect, the fair value of our portfolio investments, reducing our Net Asset Value through increased net unrealized depreciation. Subsequent to September 30, 2008 through the date of this report, conditions in the public debt and equity markets have continued to deteriorate and pricing levels have continued to decline. As a result, depending on market conditions, we could incur substantial realized losses and may continue to suffer additional unrealized losses in future periods. Any such developments could have a material adverse impact on our business, financial condition and results of operations.

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

In addition to the applicable asset coverage test that restricts our ability to borrow under our credit facility. This facility contains various covenants which, if not complied with, could accelerate repayment under the



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facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations. Our borrowings under our credit facility are collateralized by the assets in our investment portfolio. The agreements governing the credit facility require us to comply with certain financial and operational covenants. These covenants include:

A requirement to retain our status as a RIC;

A requirement to maintain a minimum amount of shareholder's equity; and

A requirement that our outstanding borrowings under the credit facility not exceed a certain percentage of the values of our portfolio companies.

As of September 30, 2008, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. For example, during the fiscal year ended September 30, 2008, net unrealized depreciation in our portfolio increased and, given the further deterioration in public debt and equity markets and pricing levels subsequent to this period, net unrealized depreciation in our portfolio may continue to increase in the future. Further material net asset devaluation in connection with additional borrowings could result in an inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of shareholders' equity. This could have a material adverse effect on our operations, as it would trigger mandatory pre-payment obligations under the terms of the credit facility.

### **A prolonged disruption of the credit markets could materially damage our business**

A protracted disruption in the credit markets could decrease demand for our investments. 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 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 protracted 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 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.**

At September 30, 2008, about one-half of our portfolio assets were recorded using broker/dealers quotes and the balance of our portfolio assets were recorded using the services of one or more nationally recognized independent valuation firms. As a result, there may be uncertainty as to the value of our portfolio investments. As we invest our capital we expect that a larger percentage of our portfolio investments will be in the form of securities that have no broker/dealers quotes.

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.

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

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.

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

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide determination of our board of directors, then, at fair value as determined in good faith by or under the direction of our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. The fair value of our portfolio companies on the whole has decreased substantially over the past two fiscal years. Unrealized losses of any given portfolio company could be an indication of such company's inability in the future to meet its repayment obligations to us. If the fair value of our portfolio companies reflects future realized losses, this would ultimately result in reductions of our income available for distribution in future periods and could materially harm our results of operations.

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

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

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

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

We primarily make private, long-term subordinated and senior 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, if the severe challenges facing the general economy and the tightening in the credit markets persists and/or deteriorates further, such conditions 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.

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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.

### **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 investments 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.

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

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

### **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%. If this ratio declines below 200%, we may not be able to pay dividends to our stockholders or 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.

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.

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

### **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 recent months, the tightening in the credit markets has resulted in unprecedented spreads between commercial borrowing rates and risk-free borrowing rates. The London Interbank Offered Rate ( LIBOR ), for example, experienced extreme volatility as banks refused to lend to each other on historically reasonable terms. Our borrowing rate is set at 100 basis points over LIBOR, and if volatility were to continue at recent levels or if LIBOR were to spike to levels significantly higher than the risk-free lending rate, our net income could be affected. However, because approximately one-half of our portfolio consists of variable-rate securities, changes in interest rates tend to have a muted impact on our portfolio. Nevertheless, 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 Business Investment Management Agreement.

### **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.

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**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 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.

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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 more than one year of experience managing the investments of PennantPark and approximately three years of experience managing 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

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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 business development company will affect our ability to and the way in which we raise additional capital, which could negatively impact the value of your investment in us.**

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 business development company, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our board of directors. We 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. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value per share of common stock, excluding underwriting commissions, unless we first file a post-effective

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amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, we note that for us to file a post-effective amendment to this registration statement on Form N-2, we must then be qualified to register our securities on Form S-3. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.

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

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. If we issue preferred securities they would rank senior to common stock in our capital structure. Payment of dividends on, and repayment of the liquidation preference of, such preferred stock 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.

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

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



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### **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 investments we acquire, the conditions in the credit markets and the economy generally, the default rate on such investments, 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.

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

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

### **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.

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

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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 RELATED TO OUR INVESTMENTS**

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

Many financial experts believe that we are 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 investments 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.

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

We 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

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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.

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

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

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

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

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

**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

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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 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

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Adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock. In addition, our Investment Adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle applicable to the portion of the incentive fee based on net capital gains. As a result, the Investment Adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

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

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

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### **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.

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### **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, and as included in the covenants to our credit facility, we may be limited in our ability to make distributions. Further, if more stockholders opt to receive cash dividends and other distributions rather than participate in our dividend reinvestment plan, we may be forced to liquidate some of our investments and raise cash in order to make distribution payments, which could materially harm our business. Finally, to the extent we make distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of our common stock.

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

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

#### **Our shares trade at discounts from net asset value and may trade 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 Net Asset Value. Our shares traded on NASDAQ at \$7.41 and \$13.40 as of September 30, 2008 and September 30, 2007, respectively. Our Net Asset Value was \$10.00 and \$12.83, as of September 30, 2008 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;





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

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

### **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.

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

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

### **Item 1B. Unresolved Staff Comments**

None

### **Item 2. Properties**

As of September 30, 2008, we do not own any real estate or other physical properties materially important to our operation. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

### **Item 3. Legal Proceedings**

Neither our Investment Adviser, our Administrator or us is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our Investment Adviser or Administrator. From time to time, we, our 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.

### **Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during our fourth fiscal quarter ended September 30, 2008.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  
**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.

Period	NAV <sup>(1)</sup>	Closing Sales Price		Premium/Discount of High Sales Price to NAV <sup>(2)</sup>	Premium/Discount of Low Sales Price to NAV <sup>(2)</sup>	Declared Dividends
		High	Low			
Fiscal year ending September 30, 2008						
Fourth quarter	\$ 10.00	\$ 8.50	\$ 5.92	85%	59%	\$ 0.24
Third quarter	\$ 10.77	\$ 8.60	\$ 7.05	80%	65%	\$ 0.22
Second quarter	\$ 10.26	\$ 11.31	\$ 8.38	110%	82%	\$ 0.22
First quarter	\$ 12.07	\$ 14.49	\$ 9.08	120%	75%	\$ 0.22
Fiscal year ended September 30, 2007						
Fourth quarter	\$ 12.83	\$ 14.76	\$ 12.61	115%	98%	\$ 0.22
Third quarter*	\$ 13.74	\$ 15.03	\$ 14.04	109%	102%	\$ 0.14

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

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

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

While our common stock has from time to time traded in excess of our net asset value, there can be no assurance, however, that it will trade at such a premium (to net asset value) in the future. The reported closing market value of our common stock on November 11, 2008 was \$3.33 per share, and we had 15 stockholders of record.

**Table of Contents****DISTRIBUTIONS**

We intend to continue making quarterly distributions to our stockholders. The timing and amount of our quarterly distributions, if any, is determined by our board of directors. Any distributions to our stockholders are declared out of assets legally available for distribution. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders. The following table reflects the cash distributions, including dividends and returns of capital per share that we have declared on our common stock since our inception (See Note 8):

<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
<b>Fiscal Year Ending September 30, 2008</b>		
September 24, 2008	October 1, 2008	\$ 0.24
June 23, 2008	June 30, 2008	\$ 0.22
March 24, 2008	March 31, 2008	\$ 0.22
December 24, 2007	December 31, 2007	\$ 0.22
Total Fiscal Year Ending September 30, 2008		\$ 0.90
<b>Inception to September 30, 2007</b>		
September 25, 2007	September 28, 2007	\$ 0.22
June 22, 2007	June 29, 2007	\$ 0.14
Total inception to September 30, 2007		\$ 0.36*

\* \$0.001354 per share is a tax return of capital.

In January 2009, a Form 1099-Div will be sent to stockholders which, will state the amount and composition of distributions and provide information with respect to appropriate tax treatment.

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

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

**Sale of Unregistered Securities**

We did not engage in any sales of unregistered securities during the fiscal year ended September 30, 2008.

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**Stock Performance Graph**

This graph compares the return on our common stock with that of the Standard & Poor's 500 Stock Index and the Russell 2000 Financial Services Index, for the period April 24, 2007 (public offering) through September 30, 2008. The graph assumes that, on April 24, 2007, a person invested \$100 in each of our common stock, the S&P 500 Index, and the Russell 2000 Financial Services Index. The graph measures total stockholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are invested in like securities.

The graph and other information furnished under this Part II Item 5 of this Form 10-K shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the 1934 Act. The stock price performance included in the above graph is not necessarily indicative of future stock price performance.

**Table of Contents****Item 6. Selected Financial Data**

The Statement of Operations, Per Share and Balance Sheet data as of and for the fiscal year ended September 30, 2008 and as of and for the period from January 11, 2007 (inception) through September 30, 2007 are derived from our financial statements which have been audited by KPMG LLP, our independent registered public accounting firm. This selected financial data 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 included elsewhere in this report.

	<b>For the Year Ended September 30, 2008</b>	<b>Period from January 11, 2007 (inception) through September 30, 2007</b>
<b>(dollar amounts in thousands, except per share data)</b>		
<b>Statement of Operations Data:</b>		
Total investment income	\$ 39,811	\$ 13,107
Net expenses	21,255	5,802
Net investment income	18,556	7,305
Net realized and unrealized losses	(59,259)	(24,004)
Net decrease in net assets resulting from operations	(40,703)	(16,699)
<b>Per Share Data:</b>		
Net asset value	10.00	12.83
Net decrease in net assets resulting from operations	(1.93)	(0.80)
Distributions to stockholders <sup>(1)</sup>	0.90	0.36
<b>Balance Sheet Data:</b>		
Total assets	419,811	555,008
Borrowings outstanding	202,000	10,000
Total net assets	210,728	270,393
<b>Other data:</b>		
Total return <sup>(2)</sup>	(38.58)%	(8.29)%
Number of portfolio companies at period end	37	38
Investments purchased during the period	209,226	414,640
Investment sales and prepayments during the period	70,121	99,636
Weighted average yield on debt portfolio at period end (unaudited)	11.1%	10.1%

- (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 respective reporting periods, and distributions, if any, reinvested in accordance with our dividend reinvestment plan.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**FORWARD-LOOKING STATEMENTS**

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

our future operating results;

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

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

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

the impact of investments that we expect to make;

the impact of fluctuations in interest rates on our business;

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

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

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



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We have based the forward-looking statements included in this report on information available to us on the date of this report, 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 report, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, Reports on Form 10-Q and current reports on Form 8-K.

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto contained elsewhere in this report.

### **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

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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 with a market capitalization of less than \$250 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less.

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

Our investment objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market private companies in the form of mezzanine debt, senior secured loans and equity investments. We consider our core assets, by value and investment focus, to consist of subordinated debt, second lien secured debt and to a lesser extent, equity investments. In the current credit environment, we also intend invest selectively in senior secured loans, which we believe offer attractive risk adjusted yields and consider them a part of our core holdings at the present time.

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

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

We are currently operating in a severely constrained credit market. Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. The turmoil in the credit markets is adversely affecting each of these factors and has resulted in broad-based reduction in the demand for, and valuation of, high-risk debt instruments. These conditions may present us with attractive investment opportunities, as we believe that there are many middle-market companies with strong balance sheets that need senior secured and mezzanine debt financing. However, these market conditions are also adversely affecting our portfolio valuations and increase the risk of default among our portfolio companies, which could negatively impact our performance.

## **Revenues**

We generate revenue in the form of interest income on the debt investments, 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 investments, 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 investments, 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,

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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 investments as interest income. Dividend income, if any, is recognized on an accrual basis to the extent that we expect to collect such amounts.

### **Expenses**

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

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

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

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

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

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

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

federal, state and local taxes;

independent directors' fees and expenses;

brokerage commissions;

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;

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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.

### **PORTFOLIO AND INVESTMENT ACTIVITY**

As of September 30, 2008, our portfolio totaled \$372.1 million and consisted of \$166.2 million of subordinated debt, \$104.2 million of second lien secured debt, \$22.9 million of equity investments and \$78.8 million of senior secured loans. Our core assets totaled \$305.5 million and consisted of investments in nineteen different companies with an average investment size of \$16.1 million per company and a weighted average yield of 12.5% on debt investments. Our non-core senior secured loan portfolio totaled \$66.6 million and consisted of nineteen different companies (including one company also in our core portfolio) with an average investment size

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of \$3.5 million, and a weighted average yield of 5.2%. 45% of our debt portfolio was in fixed-rate and 55% in variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$72.0 million. Our overall portfolio consisted of thirty-seven companies with an average investment size of \$10.1 million and a weighted average yield on debt investments of 11.1%, and was invested 45% in subordinated debt, 28% in second lien secured debt, 6% in preferred and common equity investments and 21% in senior secured loans.

For the fiscal year ended September 30, 2008, we purchased \$206.8 million, in fourteen new and two existing portfolio companies with an overall average yield of 13.8% on debt investments. For the three months ended September 30, 2008, we purchased \$57.4 million, in three new portfolio companies with an overall average yield of 14.2% on debt investments.

As of September 30, 2007, our portfolio totaled \$291.0 million and 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 non-core 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 debt investments. 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%. 15% of our debt portfolio was in fixed-rate and 85% in variable-rate investments. Overall, the portfolio had an unrealized depreciation of \$23.9 million. Our overall portfolio consisted of thirty-eight companies with an average investment size of \$7.6 million and a weighted average yield on debt investments of 10.1%, and was invested 20% in subordinated debt, 23% in second lien secured debt, 2% in common equity investments and 55% in senior secured loans.

For the period April 24, 2007 (initial public offering) to September 30, 2007, we purchased \$144.4 million, in eight new and five existing portfolio companies with an overall average yield of 13.0% on debt investments. For the three months ended September 30, 2007, we purchased \$41.3 million, in one new and five existing portfolio companies with an overall average yield of 15.2% on debt investments.

## **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 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 are valued at cost plus accreted discount, or minus

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amortized premium, which approximates value. With respect to unquoted investments, 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 the 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 the Investment Adviser and that of the independent valuation firms and responds and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and

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.

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) 157, Fair Value Measurements, which assists in clarifying 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 generally 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. We have adopted SFAS 157 on October 1, 2008. This adoption does not affect the PennantPark Investment's financial position or its results of operations.

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. We have adopted SFAS 159 on October 1, 2008 and have

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made an irrevocable election to apply the fair value option to our credit facility liability. Upon our adoption our Net Asset Value increased by \$41.8 million, or \$1.98 per share, due to the fair value adjustment related to our credit facility. After adoption, subsequent changes in the fair value of our credit facility will be recorded in the Statement of Operations. We have not elected to apply the fair value option to any other financial assets or liabilities.

### **Revenue Recognition**

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

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

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

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

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

### **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.

## **RESULTS OF OPERATIONS**

The overall leveraged finance market has continued to experience pressure which has resulted in depreciation on some of our existing assets and improved risk/reward environment for new investments. We did not experience compromised liquidity during the turmoil in the global credit markets because of our ability to sell our senior secured loans and availability under our credit facility.

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

We did not experience compromised liquidity during the recent turmoil in the global credit markets because of our ability to sell loans from our senior secured portfolio and availability under our credit facility. If the valuations of our portfolio companies continue to fall significantly from their present values, we may suffer reduced liquidity under our credit facility because of the asset coverage ratio applicable to business development companies, which generally requires our total assets to be at least 200% of our total liabilities, and because of a requirement that our outstanding borrowings under the credit facility not exceed a certain percentage of the values of our portfolio companies.

### **Investment Income**

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

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

### **Expenses**

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

Net expenses for the period from January 11, 2007 (inception) through September 30, 2007 were \$5.8 million. Of these totals, \$1.8 million was attributable to credit facility related expenses, and \$2.1 million to general and administrative expenses (including approximately \$313,000 non-recurring, primarily legal and corporate tax expenses). Net base management fee for both periods totaled \$1.9 million. PennantPark Investment Advisers did not receive a management or incentive fee for its service performed on our behalf prior to completion of our initial public offering on April 24, 2007.

### **Net Investment Income**

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

### **Net Realized Loss**

Sales and repayments of long-term investments for the fiscal year ended September 30, 2008 totaled \$70.1 million and net realized losses totaled \$11.2 million due to sale of senior secured loans. Sales and repayments of long-term investments for the period from January 11, 2007 (inception) through September 30, 2007 totaled \$99.6 million and net realized losses totaled approximately \$82,000.



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### **Net Unrealized Depreciation on Investments and cash equivalents**

Net unrealized depreciation on investments totaled \$48.1 million and \$23.9 million for the fiscal year ended September 30, 2008 and for the period January 11, 2007 (inception) through September 30, 2007, respectively.

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

Net decrease in net assets resulting from operations totaled \$40.7 million, or \$1.93 per share, for the fiscal year ended September 30, 2008, primarily due to the overall decline in market values for investments held in our portfolio. Net decrease in net assets resulting from operations totaled \$16.7 million or \$0.80 per share for the period from January 11, 2007 (inception) through September 30, 2007.

## **LIQUIDITY AND CAPITAL RESOURCES**

On June 25, 2007, PennantPark Investment 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 September 30, 2008, PennantPark Investment had outstanding borrowings of \$202.0 million (including \$40.0 million temporary draw) under the Credit Agreement, with an average interest rate of 3.93%.

Under the Credit Agreement, the lenders agreed to extend us credit in an initial aggregate principal or face amount not exceeding \$300 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 is set at 100 basis points over LIBOR.

PennantPark Investment's liquidity and capital resources are also generated and available from cash flows from operations, investment sales and repayments of senior and subordinated loans and income earned from investments and cash equivalents. On September 30, 2008, PennantPark Investment had \$202.0 million borrowings (including \$40.0 million temporary draw) under our senior secured revolving credit facility, and \$98.0 million remained unused subject to maintenance of the applicable total assets to debt ratio of 200%, and a requirement that our outstanding borrowing not exceed a certain percentage of the values of our portfolio companies. In the future, PennantPark Investment may raise additional equity or debt capital off a shelf registration or may securitize a portion of its investments among other considerations. However, we face and expect to continue to face liquidity constraints under current market conditions, and if such conditions worsen substantially, we may be unable to raise capital at all. Equity capital may be difficult to raise because, subject to some limited exceptions, we are not generally able to issue and sell our common stock at a price below net asset value per share. In addition, debt capital, to the extent it is available under stressed credit market conditions, may be issued at a higher cost and on less favorable terms and conditions. Furthermore, if the valuations of our portfolio companies continue to fall significantly from their present values, we may suffer reduced availability under our credit facility because such availability depends on our asset coverage, which generally requires that the valuation of our total assets be at least equal to 200% of our total liabilities. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our shareholders or for other general corporate purposes.

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

Our operating activities resulted in a net outflow of cash equal to \$37.9 million for the period from January 11, 2007 (inception) through September 30, 2007 and our financing activities resulted in a net inflow of cash of \$295.8 million for the same period, primarily from the issuance of our common stock.

**Table of Contents****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:

	Total	Payments due by period (millions)			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Senior secured revolving credit facility <sup>(1)</sup>	\$ 202.0 <sup>(2)</sup>			\$ 202.0 <sup>(2)</sup>	

(1) On September 30, 2008, \$98.0 million remained unused under our senior secured revolving credit facility, subject to maintenance of the applicable total assets to debt ratio of 200%, and a requirement that our outstanding borrowing not exceed a certain percentage of the values of our portfolio companies.

(2) Including \$40.0 million temporary draw.

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 the Investment Adviser in accordance with the 1940 Act, effective as of the completion of our initial public offering, pursuant to which the Investment Adviser provides us with investment advisory and management services. Payments under the Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance (see note 3 to our financial statements for more information).

Pursuant to an Administration Agreement, dated April 17, 2007, the Administrator 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, the Administrator 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 the Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief compliance officer, chief financial officer and their respective staffs.

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

**Off-Balance Sheet Arrangements**

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

**Distributions**

In order to qualify as a 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.

Distributions declared to stockholders for the fiscal year ended September 30, 2008 and for the period from January 11, 2007 (inception) through September 30, 2007 totaled \$19.0 million or \$0.90 per share and \$7.6 million or \$0.36 per share, respectively.

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

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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 compromised liquidity during the continued turmoil in the global credit markets because of our ability to liquidate our portfolio of non-core senior secured loans, which totaled \$66.6 million as of September 30, 2008, and availability under our credit facility.

## **Recent Developments**

On September 5, 2008, we filed a Form N-2 registration statement with the SEC that would permit us to offer, from time to time, up to \$250.0 million 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. The SEC declared this statement effective September 9, 2008.

## **Item 7A. Quantitative And Qualitative Disclosures 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 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. During the period covered by this report, we did not engage in interest rate hedging activities.

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**Item 8. Financial Statements and Supplementary Data**

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**Management's Report on Internal Control over Financial Reporting**

The management of PennantPark Investment Corporation (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on the assessment management believes that, as of September 30, 2008, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2008. This report appears on page 57.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

PennantPark Investment Corporation:

We have audited the accompanying statements of assets and liabilities of PennantPark Investment Corporation (the Company) as of September 30, 2008 and 2007, including the schedule of investments, and the related statements of operations, changes in net assets, and cash flows for the year ended September 30, 2008 and for the period from January 11, 2007 (inception) through September 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PennantPark Investment Corporation as of September 30, 2008 and 2007, and the results of their operations and their cash flows for the year ended September 30, 2008 and for the period from January 11, 2007 (inception) through September 30, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PennantPark Investment Corporation's internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 20, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York

November 20, 2008

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**Report of Independent Registered Public Accounting Firm**

**On Internal Control Over Financial Reporting**

The Board of Directors and Stockholders

PennantPark Investment Corporation:

We have audited PennantPark Investment Corporation's (the Company) internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included on page 78 of the Annual Report on Form 10-K, Item 9A., Controls and Procedures - Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, PennantPark Investment Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statements of assets and liabilities of PennantPark Investment Corporation as of September 30, 2008 and 2007, including the schedule of investments, and the related statements of operations, changes in net assets, and cash flows for the year ended September 30, 2008 and for the period from January 11, 2007 (inception) through September 30, 2007, and our report dated November 20, 2008 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP

New York, New York

November 20, 2008

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****STATEMENTS OF ASSETS AND LIABILITIES**

	September 30, 2008	September 30, 2007
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$427,481,745 and \$298,789,297, respectively)	\$ 354,261,950	\$ 274,679,030
Non-controlled, affiliated investments, at fair value (cost \$16,692,261 and \$16,092,573, respectively)	17,885,870	16,337,578
Investments at fair value	372,147,820	291,016,608
Cash equivalents (cost \$40,249,201 and \$258,016,351, respectively)	40,249,201	257,959,635
Interest receivable	6,046,199	4,517,850
Prepaid expenses and other assets	1,367,479	1,513,583
<b>Total assets</b>	<b>419,810,699</b>	<b>555,007,676</b>
<b>Liabilities</b>		
Distributions payable	5,056,505	
Payable for cash equivalents purchased		252,759,931
Payable for investments purchased		16,583,921
Unfunded investments		3,989,948
Credit facility payable	202,000,000	10,000,000
Interest payable	725,317	170,989
Accrued other expenses	1,300,617	1,109,793
<b>Total liabilities</b>	<b>209,082,439</b>	<b>284,614,582</b>
<b>Net Assets</b>		
Common stock, par value \$0.001 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	(602,660)	(196,769)
Accumulated net realized loss	(11,250,567)	(95,832)
Net unrealized depreciation on investments and cash equivalents	(72,026,186)	(23,921,978)
<b>Total net assets</b>	<b>\$ 210,728,260</b>	<b>\$ 270,393,094</b>
<b>Total liabilities and net assets</b>	<b>\$ 419,810,699</b>	<b>\$ 555,007,676</b>
<b>Net asset value per share</b>	<b>\$ 10.00</b>	<b>\$ 12.83</b>

SEE NOTES TO FINANCIAL STATEMENTS



**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****STATEMENTS OF OPERATIONS**

	Year ended September 30, 2008	Period from January 11, 2007 (inception) through September 30, 2007
<b>Investment income:</b>		
From non-controlled, non-affiliated investments:		
Interest	\$ 37,809,280	\$ 12,013,028
Dividends	340,533	879,537
Other	255,944	4,995
From non-controlled, affiliated investments:		
Interest	1,405,205	209,781
<b>Total investment income</b>	<b>39,810,962</b>	<b>13,107,341</b>
<b>Expenses:</b>		
Base management fee (see note 3)	7,136,580	2,565,085
Performance-based incentive fee (see note 3)	3,791,900	
Interest and other credit facility expenses	6,308,933	1,835,816
Administrative services expenses (see note 3)	2,301,973	778,587
Other general and administrative expenses	2,136,303	1,158,750
<b>Expenses before base management fee waiver</b>	<b>21,675,689</b>	<b>6,338,238</b>
Base management fee waiver	(420,731)	(641,273)
Income tax expense		105,880
<b>Net expenses</b>	<b>21,254,958</b>	<b>5,802,845</b>
<b>Net investment income</b>	<b>18,556,004</b>	<b>7,304,496</b>
<b>Realized and unrealized gain (loss) on investments and cash equivalents:</b>		
Net realized loss on investments and cash equivalents	(11,154,735)	(81,769)
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments and cash equivalents	(49,052,812)	(24,166,983)
Non-controlled, affiliated investments	948,604	245,005
<b>Net change in unrealized depreciation</b>	<b>(48,104,208)</b>	<b>(23,921,978)</b>
Net realized and unrealized loss from investments and cash equivalents	(59,258,943)	(24,003,747)
<b>Net decrease in net assets resulting from operations</b>	<b>\$ (40,702,939)</b>	<b>\$ (16,699,251)</b>
Gain (loss) per common share (see note 6)	\$ (1.93)	\$ (0.80)

SEE NOTES TO FINANCIAL STATEMENTS



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## PENNANTPARK INVESTMENT CORPORATION

## STATEMENTS OF CHANGES IN NET ASSETS

	Year ended September 30, 2008	Period from January 11, 2007 (inception) through September 30, 2007
<b>Decrease in net assets from operations:</b>		
Net investment income	\$ 18,556,004	\$ 7,304,496
Net realized loss on investments and cash equivalents	(11,154,735)	(81,769)
Net change in unrealized depreciation on investments and cash equivalents	(48,104,208)	(23,921,978)
<b>Net decrease in net assets resulting from operations</b>	<b>(40,702,939)</b>	<b>(16,699,251)</b>
<b>Dividends and distributions to Stockholders:</b>		
Dividends from net investment income	(18,961,895)	(7,545,458)
Return of capital		(28,356)
<b>Total dividends and distributions</b>	<b>(18,961,895)</b>	<b>(7,573,814)</b>
<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>		<b>294,666,159</b>
<b>Total (decrease) increase in net assets</b>	<b>(59,664,834)</b>	<b>270,393,094</b>
<b>Net Assets:</b>		
Beginning of period	270,393,094	
End of period	\$ 210,728,260	\$ 270,393,094
<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>		<b>21,068,772</b>

SEE NOTES TO FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****STATEMENTS OF CASH FLOWS**

	Year ended September 30, 2008	Period from January 11, 2007 (inception) through September 30, 2007
<b>Cash flows from operating activities:</b>		
Net decrease in net assets resulting from operations	\$ (40,702,939)	\$ (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	48,104,208	23,921,978
Net realized loss on investments and cash equivalents	11,154,735	81,769
Net accretion of discount and amortization of premium	(1,285,365)	(15,875)
Purchase of investments	(206,790,979)	(413,972,173)
Payment-in-kind interest	(2,434,562)	(668,268)
Proceeds from disposition of investments	70,120,751	99,635,961
Increase in interest receivable	(1,528,349)	(4,517,850)
Decrease (increase) in prepaid expenses and other assets	146,104	(252,287)
Increase in distributions payable to stockholders	5,056,505	
(Decrease) increase in payables for cash equivalents purchased	(252,759,931)	252,759,931
(Decrease) increase in payables for investments purchased	(16,583,921)	16,583,921
(Decrease) increase in unfunded investments	(3,989,948)	3,989,948
Increase in interest payable on credit facility	554,328	170,989
Increase in accrued expenses	190,824	1,109,793
Net cash used by operating activities	(390,748,539)	(37,871,414)
<b>Cash flows from financing activities:</b>		
Increase in issuance of common stock		315,375,000
Offering costs		(21,309,375)
Capitalized borrowing costs		(1,261,296)
Dividends and distributions to stockholders	(18,961,895)	(6,973,280)
Borrowings under credit facility (see note 12)	461,040,000	271,913,786
Repayments under credit facility (see note 12)	(269,040,000)	(261,913,786)
Net cash provided by financing activities	173,038,105	295,831,049
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(217,710,434)</b>	<b>257,959,635</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>257,959,635</b>	
<b>Cash and cash equivalents, end of period</b>	<b>\$ 40,249,201</b>	<b>\$ 257,959,635</b>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,982,247	\$ 1,598,055
Non-cash financing activities consist of the reinvestment of dividends totaling	\$	\$ 600,534
Income taxes paid	\$	\$ 150,000

SEE NOTES TO FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2008**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index<sup>(4)</sup></b>	<b>Par</b>	<b>Cost</b>	<b>Value<sup>(3)</sup></b>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 187.2%</b>							
<b>Subordinated Debt/Corporate Notes 76.8%</b>							
Advanstar, Inc.	11/30/2015	Other Media	10.76% <sup>(6)</sup>	L+700	\$ 16,268,634	\$ 16,268,634	\$ 12,567,520
Affinion Group Holdings, Inc.	03/01/2012	Consumer Products	9.37% <sup>(6)</sup>	L+625	22,500,000	21,587,384	18,562,500
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% <sup>(6)</sup>		8,000,000	7,831,761	8,000,000
CT Technologies Intermediate Holdings, Inc.	03/19/2014	Business Services	14.00% <sup>(6)</sup>		20,000,000	19,502,246	20,000,000
i2 Holdings Ltd.	06/06/2014	Aerospace and Defense	14.75% <sup>(6)</sup>		22,041,438	21,649,325	22,041,438
IDQ Holdings, Inc.	05/20/2012	Auto Sector	13.75%		20,000,000	19,555,782	20,000,000
Learning Care Group, Inc.	12/28/2015	Education	13.50% <sup>(6)</sup>		10,067,361	9,922,722	10,067,361
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		28,000,000	26,337,698	9,520,000
TZ Merger Sub, Inc.	10/01/2016	Insurance	13.50% <sup>(6)</sup>		20,000,000	19,811,785	20,000,000
UP Acquisitions Sub Inc.	02/08/2015	Oil and Gas	13.50%		21,000,000	20,428,146	21,000,000
<b>Total Subordinated Debt/Corporate Notes</b>					<b>187,877,433</b>	<b>182,895,483</b>	<b>161,758,819</b>
<b>Second Lien Secured Debt 45.5%</b>							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	9.81%	L+700	12,000,000	11,682,795	11,160,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	8.81%	L+600	13,600,000	13,068,290	12,342,000
Generics International (U.S.), Inc.	04/30/2015	Healthcare, Education and Childcare	11.26%	L+750	12,000,000	11,947,073	10,080,000
Questex Media Group, Inc.	11/04/2014	Other Media	9.31%	L+650	10,000,000	10,000,000	8,700,000
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2015	Transportation	10.55%	L+775	10,000,000	9,951,058	3,100,000
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2017	Transportation	12.50%		19,000,000	16,565,952	6,270,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	8.54% <sup>(6)</sup>	L+575	12,500,000	11,838,114	10,500,000
Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	10.70% <sup>(6)</sup>	L+700	22,500,000	22,485,895	19,800,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	9.77% <sup>(6)</sup>	L+600	16,500,000	15,866,044	13,942,500
<b>Total Second Lien Secured Debt</b>					<b>128,100,000</b>	<b>123,405,221</b>	<b>95,894,500</b>
<b>Shares</b>							
<b>Preferred Equity 4.4%</b>							
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00% <sup>(6)</sup>		842	841,927	841,927
i2 Holdings Ltd.		Aerospace and Defense	12.00% <sup>(6)</sup>		3,960,000	3,960,000	3,960,000
TZ Holdings, L.P., Series A (TZ Merger Sub, Inc.)		Insurance	(7)		686	685,820	685,820
TZ Holdings, L.P., Series B (TZ Merger Sub, Inc.)		Insurance	6.50% <sup>(6)</sup>		1,312	1,312,006	1,312,006
UP Holdings Inc., Class A-1 (UP Acquisitions Sub Inc.)		Oil and Gas	8.00% <sup>(6)</sup>		91,608	2,499,066	2,499,066

<b>Total Preferred Equity</b>	4,054,448	9,298,819	9,298,819
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SEE NOTES TO FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2008**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index<sup>(4)</sup></b>	<b>Shares</b>	<b>Cost</b>	<b>Value<sup>(3)</sup></b>
<b>Common Equity/Partnership Interest<sup>(7)</sup> 4.0%</b>							
AHC Mezzanine (Advanstar Inc.)		Other Media			3,000	\$ 3,000,000	\$ 998,883
CFHC Holdings, Inc., (Consolidated Foundries, Inc.)		Aerospace and Defense			1,627	16,271	149,557
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	3,200,000	3,200,000
i2 Holdings Ltd.		Aerospace and Defense			440,000	440,000	1,545,062
TZ Holdings, L.P. (TZ Merger Sub, Inc.)		Insurance			2	2,173	2,173
UP Holdings Inc. (UP Acquisitions Sub Inc.)		Oil and Gas			91,608	916	2,569,208
<b>Total Common Equity/Partnership Interest</b>					541,793	6,659,360	8,464,883
<b>Par</b>							
<b>First Lien Secured Debt 37.4%</b>							
Burlington Coat Factory Warehouse Corp.	05/28/2013	Retail Store	5.06%	L+225	\$ 7,896,473	7,889,120	5,401,187
Cohr Holdings, Inc.	01/31/2013	Healthcare, Education and Childcare	5.35%	L+250	2,955,000	2,955,000	1,484,888
EnviroSolutions, Inc.	08/07/2012	Environmental Services	12.04% <sup>(6)</sup>	L+825	14,014,177	12,965,204	12,192,334
EnviroSolutions, Inc.	08/07/2012	Environmental Services	12.25%	P+725	2,293	2,121	1,995
Gatehouse Media Operating, Inc.	08/28/2014	Media	4.81%	L+200	7,000,000	7,000,000	3,336,690
General Nutrition Centers, Inc.	09/16/2013	Retail Store	5.57%	L+225	3,410,095	3,411,892	2,821,854
Greatwide Logistics Services, Inc.	12/19/2013	Cargo Transport	<sup>(7)</sup>		6,912,500	6,912,500	5,149,813
Hanley-Wood, L.L.C.	03/08/2014	Other Media	4.83%	L+225	8,932,500	8,932,500	6,327,185
Hughes Network Systems, L.L.C.	04/15/2014	Telecommunications	5.31%	L+250	5,000,000	5,000,000	4,275,000
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	5.35%	L+225	9,890,541	9,890,541	6,156,861
Levlad, L.L.C.	03/08/2014	Consumer Products	5.46%	L+225	4,564,563	4,564,563	2,639,837
Longview Power, L.L.C.	02/28/2014	Utilities	5.54%	L+225	3,000,000	3,000,000	2,630,001
Mattress Holding Corp.	01/18/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	5.96%	L+225	3,950,100	3,950,100	2,567,565
Mitchell International, Inc.	03/28/2014	Business Services	5.81%	L+200	3,940,000	3,940,000	3,723,300
National Bedding Co., L.L.C.	02/28/2013	Home and Office Furnishings, Housewares and Durable Consumer Products	4.62%	L+200	6,895,000	6,900,583	5,274,675
Penton Media, Inc.	02/01/2013	Other Media	5.07%	L+225	4,925,000	4,925,000	3,558,313
Philosophy, Inc.	03/16/2014	Consumer Products	5.71%	L+200	1,474,667	1,474,667	1,194,480
Questex Media Group, Inc.	05/04/2014	Other Media	5.81%	L+300	4,924,167	4,924,167	4,825,683
Reader s Digest Association, Inc.	03/02/2014	Printing and Publishing	4.71%	L+200	985,000	985,000	699,350
Rexnord , L.L.C.	07/19/2013	Manufacturing/Basic Industry	5.76%	L+200	2,917,576	2,917,576	2,625,819

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Sitel, L.L.C.	01/30/2014	Business Services	5.30%	L+250	2,592,017	2,592,017	1,892,172
Sitel, L.L.C.	01/30/2014	Business Services	6.50%	P+150	90,311	90,311	65,927
<b>Total First Lien Secured Debt</b>					106,271,980	105,222,862	78,844,929
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						427,481,745	354,261,950

SEE NOTES TO FINANCIAL STATEMENTS



**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2008**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index<sup>(4)</sup></b>	<b>Par</b>	<b>Cost</b>	<b>Value<sup>(3)</sup></b>
<b>Investments in Non-Controlled, Affiliated Portfolio Companies 8.5%</b>							
<b>Subordinated Debt/Corporate Notes 2.1%</b>							
Performance Holdings, Inc.	07/02/2014	Leisure, Amusement, Motion Pictures, Entertainment	14.25% <sup>(6)</sup>		\$ 4,414,356	\$ 4,192,261	\$ 4,414,356
<b>Second Lien Secured Debt 4.0%</b>							
Performance, Inc.	07/02/2013	Leisure, Amusement, Motion Pictures, Entertainment	8.55%	L+575	8,750,000	8,750,000	8,347,500
<b>Shares</b>							
<b>Common Equity/Partnership Interest<sup>(7)</sup> 2.4%</b>							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures, Entertainment			37,500	3,750,000	5,124,014
<b>Investments in Non-Controlled, Affiliated Portfolio Companies</b>						16,692,261	17,885,870
Total Investments 176.6%						\$ 444,174,006	\$ 372,147,820
<b>Par</b>							
<b>Cash Equivalents 19.1%</b>							
Money Market Mutual Funds						\$ 40,249,201	40,249,201
<b>Total Cash Equivalents</b>						40,249,201	40,249,201
<b>Total Investments and Cash Equivalents 195.7%</b>						\$ 484,423,207	\$ 412,397,021
<b>Liabilities in Excess of Other Assets (95.7%)</b>							\$ (201,668,761)
<b>Net Assets 100.0%</b>							\$ 210,728,260

(1) As used in this Schedule of Investments and in accordance with the Investment Company Act of 1940 (the "1940 Act") non-controlled means we own less than 25% of a portfolio company's voting securities.

(2) As used in this Schedule of Investments and in accordance with the 1940 Act non-affiliated means we own less than 5% of a portfolio company's voting securities and affiliated means that we own more than 5% of a portfolio company's voting securities.

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

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- (4) 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 ) or Prime Rate (Prime or P ).
- (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.
- (6) Coupon payable in cash and/or payment-in-kind ( PIK ).
- (7) Non-income producing.

SEE NOTES TO FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2007**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par	Cost	Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 101.6%</b>							
<b>Subordinated Debt/Corporate Notes 19.8%</b>							
Advanstar, Inc.	11/30/2015	Other Media	12.20% <sup>(7)</sup>	L+700	\$ 14,580,690	\$ 14,580,690	\$ 14,580,690
Affinion Group Holdings, Inc.	03/01/2012	Consumer Products	11.68% <sup>(7)</sup>	L+625	18,500,000	18,106,103	17,760,000
Realogy, Corp. <sup>(6)</sup>	04/15/2015	Buildings and Real Estate	12.38%		28,000,000	26,117,780	21,140,000
<b>Total Subordinated Debt/Corporate Notes</b>					<b>61,080,690</b>	<b>58,804,573</b>	<b>53,480,690</b>
<b>Second Lien Secured Debt 21.8%</b>							
Questex Media Group, Inc.	11/04/2014	Other Media	12.08%	L+650	10,000,000	10,000,000	9,800,000
Paint Acquisition Corp. <sup>(6)</sup>	05/15/2015	Transportation	13.31%	L+775	10,000,000	9,932,321	6,800,000
Paint Acquisition Corp. <sup>(6)</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 and Rubber	12.13%	L+700	17,500,000	17,493,750	17,237,500
TransFirst Holdings, Inc.	06/15/2015	Business Services	11.30% <sup>(7)</sup>	L+600	13,000,000	12,886,250	12,431,250
<b>Total Second Lien Secured Debt</b>					<b>69,500,000</b>	<b>66,510,488</b>	<b>58,998,750</b>
<b>Shares</b>							
<b>Common Equity/Partnership Interest<sup>(8)</sup> 1.2%</b>							
AHC Mezzanine (Advanstar Inc.)		Other Media			3,000	3,000,000	3,269,680
<b>Par</b>							
<b>First Lien Secured Debt 58.8%</b>							
Berry Plastics Group, Inc.	04/03/2015	Containers, Packaging and Glass	7.34%	L+200	\$ 7,462,500	7,462,500	7,274,600

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Burlington Coat Factory Warehouse Corp.	05/28/2013	Retail Store	7.76%	L+225	7,896,473	7,887,537	7,571,97
Charter Communications Operating, L.L.C.	03/06/2014	Cable Television	7.13%	L+200	15,000,000	14,992,740	14,468,31
Cohr Holdings, Inc.	01/31/2013	Healthcare, Education and Childcare	8.04%	L+250	2,985,000	2,985,000	2,388,00
CR Brand Acquisition Corp.	02/07/2014	Energy/Utilities	7.53%	L+225	1,990,000	1,990,000	1,887,18
Gatehouse Media Operating, Inc.	08/28/2014	Media	7.47%	L+200	7,000,000	7,000,000	6,405,00
General Nutrition Centers, Inc.	09/16/2013	Retail Store	7.61%	L+225	6,483,750	6,487,788	6,147,40
Greatwide Logistics Services, Inc.	12/19/2013	Cargo Transport	8.70%	L+350	6,947,500	6,947,500	6,079,06
Hanley-Wood, L.L.C.	03/08/2014	Other Media	7.60%	L+225	9,000,000	9,000,000	7,845,00
Hawker Beechcraft, Inc.	03/28/2014	Aerospace and Defense	7.21%	L+200	1,990,780	1,990,780	1,930,22
Health Management Associates, Inc.	02/28/2014	Healthcare, Education and Childcare	6.95%	L+175	9,950,000	9,950,000	9,441,61
Hughes Network Systems, L.L.C.	04/15/2014	Telecommunications	8.06%	L+250	5,000,000	5,000,000	4,625,00
Macuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	7.44%	L+225	9,963,514	9,963,514	8,947,23

SEE NOTES TO FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2007**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index<sup>(4)</sup></b>	<b>Par</b>	<b>Cost</b>	<b>Value<sup>(3)</sup></b>
<b>First Lien Secured Debt (Continued)</b>							
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>(5)</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 and Office Furnishings, Housewares and Durable Consumer Products	7.61%	L+225	3,990,000	3,990,000	3,740,625
McJunkin Corp.	01/31/2014	Oil and 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 and Office Furnishings, Housewares and Durable Consumer Products	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 and Publishing	7.43%	L+200	995,006	995,006	940,281
Rexnord , L.L.C.	07/19/2013	Manufacturing and Basic Industry	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 and Entertainment	7.57%	L+225	14,093,960	14,093,960	13,389,262
Univision Communications Inc. <sup>(5)</sup>	09/29/2014	Broadcasting and Entertainment			906,040	906,040	860,738
Valassis Communications, Inc.	03/02/2014	Printing and Publishing	6.95%	L+175	7,061,899	7,061,899	6,549,911
Valassis Communications, Inc. <sup>(5)</sup>	03/02/2014	Printing and Publishing			2,103,908	2,103,908	1,951,375
Western Refining, Inc.	05/30/2014	Oil and Gas	6.88%	L+175	3,714,286	3,714,286	3,640,000
					170,481,009	170,474,236	158,929,905

**Total First Lien  
Secured Debt**

**Total  
Investments in  
Non-Controlled,  
Non-Affiliated  
Portfolio  
Companies**

\$ 298,789,297 \$ 274,679,030

SEE NOTES TO FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2007**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index<sup>(4)</sup></b>	<b>Par</b>	<b>Cost</b>	<b>Value<sup>(3)</sup></b>
<b>Investments in Non-Controlled, Affiliated Portfolio Companies 6.0%</b>							
<b>Subordinated Debt/Corporate Notes 1.4%</b>							
Performance Holdings, Inc.	07/02/2014	Leisure, Amusement, Motion Pictures, Entertainment	14.25% <sup>(7)</sup>		\$ 3,837,578	\$ 3,592,573	\$ 3,837,578
<b>Second Lien Secured Debt 3.2%</b>							
Performance, Inc.	07/02/2013	Leisure, Amusement, Motion Pictures, Entertainment	11.11%	L+575	8,750,000	8,750,000	8,750,000
<b>Shares</b>							
<b>Common Equity/Partnership Interest<sup>(8)</sup> 1.4%</b>							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures, Entertainment			37,500	3,750,000	3,750,000
<b>Investments in Non-Controlled, Affiliated Portfolio Companies</b>						16,092,573	16,337,578
<b>Total Investments 107.6%</b>						\$ 314,881,870	\$ 291,016,608
<b>Par</b>							
<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 Fund					5,256,420	5,256,420	5,256,420
<b>Total Cash Equivalents</b>						260,256,420	258,016,351
<b>Total Investments and Cash Equivalents 203.0%</b>						\$ 572,898,221	\$ 548,976,243
<b>Liabilities in Excess of Other Assets (103.0%)</b>							\$ (278,583,149)
<b>Net Assets 100.0%</b>							\$ 270,393,094

(1) As used in this Schedule of Investments and in accordance with the Investment Company Act of 1940 (the 1940 Act ) non-controlled means we own less than 25% of a portfolio company s voting securities.

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- (2) As used in this Schedule of Investments and in accordance with the 1940 Act non-affiliated means we own less than 5% of a portfolio company's voting securities and affiliated means that we own more than 5% of a portfolio company's voting securities.
- (3) Valued based on our accounting policy (see Note 2 to our financial statements).
- (4) 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 ).
- (5) Represents purchases of securities with delayed draws. These securities do not have a basis point spread above index.
- (6) 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.
- (7) Coupon payable in cash and/or payment-in-kind ( PIK ).
- (8) Non-income producing.

SEE NOTES TO FINANCIAL STATEMENTS



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**PENNANTPARK INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

**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. The Company invests primarily in U.S. middle-market companies in the form of mezzanine debt, senior secured loans 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.

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 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 investments with maturities greater than 60 days generally are valued by an independent pricing service or at the bid prices from at least two broker/dealers (if available, otherwise by a principal market maker or a primary market dealer). We expect that there will

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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 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, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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:

- (i) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;
- (ii) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (iii) 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.
- (iv) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and that of the independent valuation firms and responds and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (v) 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 our 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 investments with contractual PIK interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not

collectible. We do not

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accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount 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 investments as interest income. Dividend income, if any, is recognized on an accrual basis to the extent that we expect to collect such amounts.

- (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. 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 paying any material corporate-level 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. We did not have any uncertain tax positions that met the recognition or measurement criteria of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48) nor did we have any unrecognized tax benefits as of September 30, 2007 or September 30, 2008. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our 2008 and 2007 federal tax year remains subject to examination by the IRS.
- (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) Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current.
- (h) 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. We have adopted SFAS 157 on October 1, 2008. This adoption does not affect the Company's financial position or its results of operations.
- (i) 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. We have adopted SFAS 159 on October 1, 2008 and have made an irrevocable election to apply the fair value option to our credit facility liability. Upon our adoption our Net Asset

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Value increased by \$41.8 million, or \$1.98 per share, due to the fair value adjustment related to our credit facility. After adoption, subsequent changes in the fair value of our credit facility will be recorded in the Statement of Operations. We have not elected to apply the fair value option to any other financial assets or liabilities. The balances in the September 30, 2008 financial statements as reported do not reflect such adoption.

(j) Certain prior period amounts have been reclassified to conform to current period presentation.

**3. AGREEMENTS**

PennantPark Investment has entered into an Investment Management Agreement with the Investment Adviser. Under this agreement the Investment Adviser, subject to the overall supervision of PennantPark Investment's board of directors, manages the day-to-day operations of and provides investment advisory services to, PennantPark Investment. 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 and/or temporary draws on the Revolving Credit Facility (adjusted gross assets), if any) (see note 9). Although the base management fee is 2.00% of adjusted gross assets, the Investment Adviser agreed to waive a portion of the base management fee such that the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007 and 1.75% from October 1, 2007 through March 31, 2008. The base management fee equals 2.00% after March 31, 2008 and is payable quarterly in arrears. 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. For the fiscal year ended September 30, 2008, the Investment Adviser received a net base management fee of \$6.7 million from the Company. For the period from April 24, 2007 (initial public offering) through September 30, 2007, the Investment Adviser received a net base management fee of approximately \$1.9 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 the Administration Agreement, and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with deferred interest feature (such as original issue discount, debt instruments with 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);

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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 the 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 was 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 fiscal year ended September 30, 2008, the Adviser received an incentive fee of \$3.8 million from the Company. For the period from April 24, 2007 (initial public offering) through September 30, 2007, the Investment Adviser did not receive an incentive fee 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 the 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 fiscal year ended September 30, 2008, the Investment Adviser was reimbursed \$2.0 million from the Company, including expenses it incurred on behalf of the Administrator, for services described above. For the period from April 24, 2007 (initial public offering) through September 30, 2007, the Investment Adviser was reimbursed approximately \$490,000 from the Company 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 \$21.3 million 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, 2008, PennantPark Investment's total net assets and net asset value per share were \$210.7 million and \$10.00, respectively. On September 30, 2007, PennantPark Investment's total net assets and net asset value per share were \$270.4 million and \$12.83, respectively.

**Table of Contents****6. LOSS PER SHARE**

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

Class and Year	Year ended September 30, 2008	Period from January 11, 2007 (inception) through September 30, 2007
Numerator for net decrease in net assets resulting from operations:	\$ (40,702,939)	\$ (16,699,251)
Denominator for basic and diluted weighted average shares:	21,068,772	20,936,149*
Basic and diluted net decrease in net assets per share resulting from operations:	\$ (1.93)	\$ (0.80)

\* Since completion of IPO on April 24, 2007

**7. INVESTMENTS**

Purchases and sales/repayments of long-term investments for the fiscal year ended September 30, 2008 totaled \$206.8 million and \$70.1 million, respectively.

Investments and cash equivalents consisted of the following:

	September 30, 2008		September 30, 2007	
	Cost	Fair Value	Cost	Fair Value
Second lien	\$ 132,155,221	\$ 104,242,000	\$ 75,260,488	\$ 67,748,750
Subordinated debt / corporate notes	187,087,744	166,173,175	62,397,146	57,318,268
Preferred equity	9,298,819	9,298,819		
Common equity	10,409,360	13,588,897	6,750,000	7,019,685
First lien	105,222,862	78,844,929	170,474,236	158,929,905
Cash equivalents	40,249,201	40,249,201	258,016,351	257,959,635
<b>Total</b>	<b>\$ 484,423,207</b>	<b>\$ 412,397,021</b>	<b>\$ 572,898,221</b>	<b>\$ 548,976,243</b>

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

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The table below describes investments by industry classification and enumerates the percentage, by market value, of the total portfolio assets (excluding cash equivalents) in such industries as of September 30, 2008 and September 30, 2007.

Industry Classification	September 30, 2008	September 30, 2007
Aerospace and Defense	10%	%
Other Media	10	15
Business Services	8	7
Oil and Gas	7	2
Consumer Products	6	8
Energy /Utilities	6	
Healthcare, Education and Childcare	6	4
Insurance	6	
Auto Sector	5	
Chemicals, Plastic and Rubber	5	6
Leisure, Amusement, Motion Picture, Entertainment	5	6
Financial Services	4	
Home and Office Furnishings, Housewares, and Durable		
Consumer Products	4	7
Buildings and Real Estate	3	7
Education	3	
Environmental Services	3	
Retail Store	2	5
Transportation	2	7
Cargo Transport	1	2
Manufacturing / Basic Industry	1	2
Media	1	2
Telecommunications	1	2
Utilities	1	2
Broadcast and Entertainment		5
Cable Television		5
Containers, Packaging and Glass		2
Other		1
Printing and Publishing		3
Total	100%	100%

**8. TAXES AND DISTRIBUTIONS**

During the fiscal year ended September 30, 2008, there were no permanent book-to-tax differences present. Aggregate stockholders' equity was not affected as a result of any reclassification. As of September 30, 2008, the cost of investments for federal income tax purposes was \$444.2 million resulting in a gross unrealized appreciation and depreciation of \$7.9 million and \$79.9 million, respectively. The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended September 30, 2008:

Net decrease in stockholders' equity resulting from operations	\$ (40,702,939)
Net unrealized depreciation on investments transactions not taxable	48,104,208
Net realized loss on investments and cash equivalents not taxable	11,154,735
Net income derived from revenue recognition of contractual PIK interest	(295,894)
Other deductible expenses	(13,808)
Taxable income before deductions for distributions	\$ 18,246,302





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As of September 30, 2008, the components of accumulated losses on tax basis and reconciliation to accumulated losses on a book basis were as follows:

Undistributed ordinary income	\$ (602,660)
Undistributed long-term net capital gains	
<b>Total undistributed net earnings</b>	<b>(602,660)</b>
Capital loss carry forward*	(205,217)
Post-October 2007 capital losses	(11,045,348)
Net unrealized appreciation (depreciation) of investments	(72,026,186)
<b>Total accumulated earnings/(deficit)</b>	<b>\$ (83,879,411)</b>

\* Expires 2016.

Under federal tax law, foreign currency and capital losses realized after October 31 may be deferred and treated as having arisen on the first day of the following fiscal year. For the year ended September 30, 2008, the Corporation incurred post October capital losses of \$11.0 million that will be deferred to the year ended September 30, 2009.

**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 are 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, temporarily drawing down on its Revolving Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing 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.

**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 on September 30, 2008 or September 30, 2007.

**Table of Contents****11. FINANCIAL HIGHLIGHTS**

	Year ended September 30, 2008	Period from January 11, 2007  (inception) through September 30, 2007
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 12.83	\$
Net investment income	0.88	0.35
Net change in realized and unrealized loss	(2.81)	(1.15)
Net decrease in net assets resulting from operations	(1.93)	(0.80)
Dividends and distributions to stockholders <sup>(1)</sup>	(0.90)	(0.36)
Offering costs related to public offering		(1.01)
Issuance of common stock		15.00
Net asset value, end of period	\$ 10.00	\$ 12.83
Per share market value, end of period	\$ 7.41	\$ 13.40
Total return <sup>(2)</sup>	(38.58)%	(8.29)% <sup>(4)</sup>
Shares outstanding at end of period	21,068,772	21,068,772
<b>Ratio/Supplemental Data:</b>		
Ratio of operating expenses to average net assets <sup>(3)</sup>	6.30%	3.76% <sup>(4)</sup>
Ratio of credit facility related expenses to average net assets	2.66%	1.50% <sup>(4)</sup>
Total expenses to average net assets <sup>(3)</sup>	8.96%	5.26% <sup>(4)</sup>
Ratio of net investment income to average net assets	7.82%	5.96% <sup>(4)</sup>
Net assets at end of period	\$ 210,728,260	\$ 270,393,094
Average debt outstanding	\$ 119,472,732	\$ 817,610 <sup>(4)</sup>
Average debt per share	\$ 5.67	\$ 0.04 <sup>(4)</sup>
Portfolio turnover ratio	20.10%	62.20%

\* Not 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 period and takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.
- (3) For the fiscal year ended September 30, 2008, the ratio of operating expenses before management fee waiver to average net assets was 6.47%, and the ratio of total expenses before management fee waiver to average net assets was 9.13%. For the period from April 24, 2007 (initial public offering) 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 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, 2008, there was \$202.0 million in outstanding borrowings under the Credit Agreement (including \$40.0 million temporary draw), with an average interest rate of 3.93%.

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



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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.

Separately, Pennant SPV Company, LLC 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.

The Credit Agreement contains customary affirmative and negative covenants, including the maintenance of a minimum stockholders' equity, the maintenance of a ratio not less than 200% of total assets (less total liabilities other than indebtedness) to total indebtedness (approximately 204% including temporary draw as of September 30, 2008 or 230% excluding such draws), and restrictions on certain payments and issuance of debt. For a complete list of such covenants, see our current report on Form 8-K, filed June 28, 2007.

Subsequent to September 30, 2008 and through the date of this report, conditions in the public debt and equity markets have continued to deteriorate and our net asset value has continued to decline. The Credit Agreement requires the Company to maintain a minimum amount of shareholder's equity and requires that the Company's outstanding borrowings under the Credit Agreement not exceed a certain percentage of the values of its portfolio companies. The Company's continued compliance with these covenants depends on many factors, some of which are beyond the Company's control. For example, during the fiscal year ended September 30, 2008, net unrealized depreciation in the Company's portfolio increased and, given the further deterioration in public capital markets and pricing levels subsequent to this period, net unrealized depreciation in the portfolio may continue to increase in the future. Further material net asset devaluation could have a material adverse effect on the Company's operations, and could require the Company to reduce its borrowings under the Credit Agreement in order to comply with certain of the Credit Agreement covenants, including the ratio of total assets to total indebtedness.

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

From time to time, PennantPark Investment, 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.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

**Item 9A. Controls and Procedures**

***(a) Evaluation of Disclosure Controls and Procedures***

As of September 30, 2008, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

***(b) Management's Report on Internal Control Over Financial Reporting***

Management's Report on Internal Control Over Financial Reporting, which appears on page 68 of this Form 10-K, is incorporated by reference herein.

***(c) Changes in Internal Controls Over Financial Reporting.***

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None

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**PART III**

We will file a definitive Proxy Statement for our 2009 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2009 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 11. Executive Compensation**

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2009 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2009 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2009 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

**Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2009 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

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**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as part of this Annual Report:

- (1) Financial Statements Refer to Item 8 above
  
- (2) Financial Statement Schedules None.
  
- (3) Exhibits
  - 3.1 Articles of Incorporation (Incorporated by reference to the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-140092), filed on March 5, 2007).
  - 3.2 Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K (File No. 814-00736), filed on December 13, 2007).
  - 4.1 Form of Share Certificate (Incorporated by reference to Exhibit 99(d)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
  - 10.1 Form of Investment Management Agreement between the Registrant and PennantPark Investment Advisers, LLC (Incorporated by reference to Exhibit 99(g) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
  - 10.2 Form of Custodian Agreement between the Registrant and PFPC Trust Company (Incorporated by reference to Exhibit 99(j)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
  - 10.3 Form of Administration Agreement between the Registrant and various lenders (Incorporated by reference to Exhibit 99(k)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
  - 10.4 Dividend Reinvestment Plan (Incorporated by reference to Exhibit 99(e) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
  - 10.5 Senior Secured Revolving Credit Agreement between Registrant and various lenders (Incorporated by reference to the Report on Form 8-K, Exhibit 99.2 (File No. 814-00736), filed on June 28, 2007).
  - 11 Computation of Per Share Earnings (included in the notes to the unaudited financial statements contained in this Report).
  - 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
  - 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
  - 32.1\* Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
  - 32.2\* Certification of Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
  - 99.1 Privacy Policy of the Registrant (Incorporated by reference to Exhibit 99.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00736), filed on December 13, 2007).

\* Filed herewith



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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ ARTHUR H. PENN  
 Name: **Arthur H. Penn**  
 Title: **Chief Executive Officer and Chairman of the Board**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ ARTHUR H. PENN <b>Arthur H. Penn</b>	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	November 20, 2008
/s/ AVIV EFRAT <b>Aviv Efrat</b>	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	November 20, 2008
/s/ ADAM K. BERNSTEIN <b>Adam K. Bernstein</b>	Director	November 20, 2008
/s/ JEFFREY FLUG <b>Jeffrey Flug</b>	Director	November 20, 2008
/s/ MARSHALL BROZOST <b>Marshall Brozost</b>	Director	November 20, 2008
/s/ SAMUEL L. KATZ <b>Samuel L. Katz</b>	Director	November 20, 2008