

PENNANTPARK INVESTMENT CORP
Form 10-Q
August 05, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
FOR THE QUARTER ENDED JUNE 30, 2014

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)

MARYLAND

20-8250744

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

590 Madison Avenue,

15th Floor, New York, N.Y.

10022

(Address of principal executive offices)

(Zip Code)

(212)-905-1000

(Registrant's Telephone Number, Including Area Code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of August 5, 2014 was 66,592,911.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2014

TABLE OF CONTENTS

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Statements of Assets and Liabilities as of June 30, 2014 (unaudited) and September 30, 2013 4

Consolidated Statements of Operations for the three and nine months ended June 30, 2014 and 2013 (unaudited) 5

Consolidated Statements of Changes in Net Assets for the nine months ended June 30, 2014 and 2013 (unaudited) 6

Consolidated Statements of Cash Flows for the nine months ended June 30, 2014 and 2013 (unaudited) 7

Consolidated Schedules of Investments as of June 30, 2014 (unaudited) and September 30, 2013 8

Notes to Consolidated Financial Statements (unaudited) 17

Report of Independent Registered Public Accounting Firm 27

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 28

Item 3. Quantitative and Qualitative Disclosures About Market Risk 35

Item 4. Controls and Procedures 35

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 36

Item 1A. Risk Factors 36

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 36

Item 3. Defaults Upon Senior Securities 36

Item 4. Mine Safety Disclosures 36

Item 5. Other Information 36

Item 6. Exhibits 37

SIGNATURES 38

Table of Contents

PART I CONSOLIDATED FINANCIAL INFORMATION

We are filing this Form 10-Q, or the Report, in compliance with Rule 13a-13 promulgated by the Securities and Exchange Commission, or the SEC. In this Report, Company, we, our or us refer to PennantPark Investment Corporation and its consolidated subsidiaries unless the context suggests otherwise. PennantPark Investment refers to only PennantPark Investment Corporation; our SBIC Funds refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC LP, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC. SBA refers to the Small Business Administration; Credit Facility refers to our multi-currency, senior secured revolving credit facility; 2025 Notes refers to our 6.25% senior notes due 2025; BDC refers to a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act; Code refers to the Internal Revenue Code of 1986, as amended; and RIC refers to a regulated investment company under the Code. References to our portfolio or investments include investments we make through our SBIC Funds and other consolidated subsidiaries.

Table of Contents**Item 1. Consolidated Financial Statements****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	June 30, 2014 (unaudited)	September 30, 2013
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost \$1,028,125,032 and \$928,078,589, respectively)	\$ 1,089,476,729	\$ 968,471,042
Non-controlled, affiliated investments (cost \$108,188,540 and \$99,021,141, respectively)	71,939,735	76,735,800
Controlled, affiliated investments (cost \$38,107,245 and \$64,418,155, respectively)	36,991,091	32,968,711
Total of investments (cost \$1,174,420,817 and \$1,091,517,885, respectively)	1,198,407,555	1,078,175,553
Cash and cash equivalents (cost \$64,349,609 and \$58,440,829, respectively) (See Note 8)	64,390,787	58,440,829
Interest receivable	14,000,558	10,894,893
Deferred financing costs and other assets	13,375,704	5,815,817
Total assets	1,290,174,604	1,153,327,092
Liabilities		
Distributions payable	18,639,330	18,619,812
Payable for investments purchased		52,544,704
Unfunded investments	20,396,263	7,241,667
Credit Facility payable (cost \$255,898,700 and \$145,500,000, respectively) (See Notes 5 and 10)	257,187,294	145,500,000
SBA debentures payable (cost \$150,000,000) (See Notes 5 and 10)	150,000,000	150,000,000
2025 Notes payable (cost \$71,250,000) (See Notes 5 and 10)	72,532,500	68,400,000
Management fee payable (See Note 3)	6,131,963	5,419,557
Performance-based incentive fee payable (See Note 3)	5,370,391	4,274,881
Interest payable on debt	3,033,648	1,810,466
Accrued other expenses	2,410,422	2,009,806
Total liabilities	535,701,811	455,820,893
Commitments and contingencies (See Note 11)		
Net assets		
Common stock, 66,569,036 and 66,499,327 shares issued and outstanding, respectively.	66,569	66,499

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Par value \$0.001 per share and 100,000,000 shares authorized.			
Paid-in capital in excess of par value		756,809,951	756,017,096
Distributions in excess of net investment income		(9,406,519)	(4,675,217)
Accumulated net realized loss on investments		(14,454,032)	(43,409,847)
Net unrealized appreciation (depreciation) on investments		24,027,916	(13,342,332)
Net unrealized (appreciation) depreciation on debt		(2,571,092)	2,850,000
Total net assets	\$	754,472,793	\$ 697,506,199
Total liabilities and net assets	\$	1,290,174,604	\$ 1,153,327,092
Net asset value per share	\$	11.33	\$ 10.49

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Investment income from:				
Non-controlled, non-affiliated investments:				
Interest	\$ 29,949,064	\$ 26,693,069	\$ 90,772,466	\$ 80,520,256
Other income	1,463,884	3,941,167	6,314,911	9,184,121
Non-controlled, affiliated investments:				
Interest	1,456,621	2,140,854	4,174,234	4,471,618
Other income				227,800
Controlled, affiliated investments:				
Interest	2,447,354	949,583	6,071,987	3,336,040
Other income	158,333		459,166	
Total investment income	35,475,256	33,724,673	107,792,764	97,739,835
Expenses:				
Base management fee (See Note 3)	6,131,963	5,412,461	17,906,316	15,869,172
Performance-based incentive fee (See Note 3)	5,370,391	4,413,711	14,866,434	12,518,209
Interest and expenses on debt (See Note 10)	5,034,567	4,212,450	14,707,313	11,292,224
Administrative services expenses (See Note 3)	930,809	1,157,748	2,771,359	3,485,607
Other general and administrative expenses	929,254	520,970	2,470,350	2,000,919
Expenses before taxes and debt issuance costs	18,396,984	15,717,340	52,721,772	45,166,131
Tax expense (benefit)	32,000	32,500	40,548	(82,396)
Debt issuance costs (See Note 5)	3,850,000	320,000	3,850,000	2,757,500
Total expenses	22,278,984	16,069,840	56,612,320	47,841,235
Net investment income	13,196,272	17,654,833	51,180,444	49,898,600
Realized and unrealized gain (loss) on investments and debt:				

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Net realized gain on investments	23,267,131	15,682,708	28,955,815	14,723,076
Net change in unrealized (depreciation) appreciation on:				
Non-controlled, non-affiliated investments	(8,997,766)	(23,484,170)	21,000,422	8,805,377
Controlled and non-controlled, affiliated investments	7,860,989	3,504,661	16,369,826	(3,580,500)
Debt (appreciation) depreciation (See Notes 5 and 10)	(3,377,315)	427,500	(5,421,092)	(547,500)
Net change in unrealized (depreciation) appreciation on investments and debt	(4,514,092)	(19,552,009)	31,949,156	4,677,377
Net realized and unrealized gain (loss) from investments and debt	18,753,039	(3,869,301)	60,904,971	19,400,453
Net increase in net assets resulting from operations	\$ 31,949,311	\$ 13,785,532	\$ 112,085,415	\$ 69,299,053
Net increase in net assets resulting from operations per common share (See Note 7)	\$ 0.48	\$ 0.21	\$ 1.68	\$ 1.05
Net investment income per common share	\$ 0.20	\$ 0.27	\$ 0.77	\$ 0.76

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****(Unaudited)**

	Nine Months Ended June 30,	
	2014	2013
Net increase in net assets from operations:		
Net investment income	\$ 51,180,444	\$ 49,898,600
Net realized gain on investments	28,955,815	14,723,076
Net change in unrealized appreciation on investments	37,370,248	5,224,877
Net change in debt appreciation	(5,421,092)	(547,500)
Net increase in net assets resulting from operations	112,085,415	69,299,053
Distributions to stockholders:	(55,911,746)	(55,778,317)
Capital transactions:		
Public offering		7,574,000
Offering costs		(265,090)
Reinvestment of distributions	792,925	2,555,964
Net increase in net assets resulting from capital transactions	792,925	9,864,874
Net increase in net assets	56,966,594	23,385,610
Net assets:		
Beginning of period	697,506,199	669,717,047
End of period	\$ 754,472,793	\$ 693,102,657
Distributions in excess of net investment income, at end of period	\$ (9,406,519)	\$ (3,075,320)
Capital share activity:		
Shares issued from public offering		700,000
Shares issued from reinvestment of distributions	69,709	235,614

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 112,085,415	\$ 69,299,053
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used) provided by operating activities:		
Net change in net unrealized appreciation on investments	(37,370,248)	(5,224,877)
Net change in unrealized appreciation on debt	5,421,092	547,500
Net realized gain on investments	(28,955,815)	(14,723,076)
Net accretion of discount and amortization of premium	(6,629,854)	(4,245,224)
Purchases of investments	(561,839,426)	(317,161,225)
Payment-in-kind income	(6,530,685)	(9,651,825)
Proceeds from dispositions of investments	534,400,443	271,183,021
(Increase) decrease in interest receivable	(3,105,665)	1,753,180
Increase in deferred financing costs and other assets	(6,809,887)	(247,289)
(Decrease) increase in payable for investments purchased	(52,544,704)	15,932,290
Increase in interest payable on debt	1,223,182	2,339,426
Increase in management fee payable	712,406	620,547
Increase in performance-based incentive fee payable	1,095,510	206,721
Increase in accrued other expenses	400,618	516,299
Net cash (used) provided by operating activities	(48,447,618)	11,144,521
Cash flows from financing activities:		
Public offerings		7,574,000
Offering costs		(265,090)
Deferred financing costs	(750,000)	
Distributions paid to stockholders	(55,099,303)	(50,440,381)
Proceeds from 2025 Notes issuance (See Note 10)		71,250,000
Borrowings under Credit Facility (See Note 10)	906,253,100	850,300,000
Repayments under Credit Facility (See Note 10)	(795,854,400)	(880,800,000)

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Net cash provided (used) by financing activities	54,549,397	(2,381,471)
Net increase in cash equivalents	6,101,779	8,763,050
Effect of exchange rate changes on cash	(151,821)	
Cash and cash equivalents, beginning of period	58,440,829	7,559,453
Cash and cash equivalents, end of period	\$ 64,390,787	\$ 16,322,503
Supplemental disclosure of cash flow information and non-cash financing activity:		
Interest paid	\$ 13,239,662	\$ 8,622,437
Taxes paid	\$ 8,166	\$ 92,398
Distributions reinvested	\$ 792,925	\$ 2,555,964
Conversions and non-cash exchanges	\$ 59,126,053	\$ 58,615,748

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2014

(Unaudited)

Investor Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 144.3% ^{(1), (2)}							
Lien Secured Debt 37.0%							
Cell Business Solutions LLC	06/21/2017	Communications	11.25%	L+975	23,454,110	\$ 22,702,765	\$ 24,626,000
Unaffiliated Investments, Inc.	04/02/2018	Retail	11.90%	L+1,175 ⁽⁸⁾	29,653,975	28,996,434	30,252,000
Unaffiliated Investments, Inc.	04/02/2018	Retail			7,500,000	7,500,000	7,500,000
Unaffiliated Investments, Inc.	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825	5,223,750	5,076,593	5,275,000
US Bidco	06/17/2019	Electronics	9.00%	L+750	12,352,942	12,229,592	12,229,000
US Bidco ⁽⁹⁾	06/17/2019	Electronics			2,647,058	2,647,058	2,647,000
Holdings, ⁽⁵⁾	03/30/2017	Auto Sector	11.50%		11,500,000	11,359,159	12,678,000
System Solutions, Inc.	11/30/2016	Healthcare, Education and Childcare	13.07%	P+982	8,000,000	8,000,000	8,225,000
son Hewitt Service	10/16/2017	Personal, Food and Miscellaneous Services	10.00%	L+850	7,777,902	7,777,902	7,719,000
Chemical Solutions LLP, L.P.	08/19/2019	Chemicals, Plastics and Rubber	10.00%	L+900	22,342,352	21,947,354	22,133,000
Guard Services,	11/27/2018	Insurance	12.50%	L+1,150	28,350,000	27,332,224	28,633,000
	12/16/2019		11.50%		14,250,000	14,113,310	16,066,000

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		Mining, Steel, Iron and Non-Precious Metals					
Mineral ing Corp.							
K quisition	04/30/2018	Business Services	12.00%	L+1,050	24,389,911	24,068,498	24,389,911
K quisition (9)	10/31/2017	Business Services			1,000,000	985,000	1,000,000
Inns ted (10), (12)	02/12/2020	Buildings and Real Estate	11.05%	L+1,050 ⁽⁸⁾	27,909,091	43,963,551	47,581,100
Well ce, LLC	05/02/2019	Oil and Gas	12.00%	L+1,150	14,551,598	14,198,694	14,655,000
Well ce, LLC	11/03/2014	Oil and Gas			1,889,205	1,889,205	1,902,000
ey Claims ces, LLC	07/06/2017	Insurance	12.50%	L+1,100	11,528,792	11,528,792	11,759,000
First Secured						266,316,131	279,278,000
and Lien red c 63.2%							
frican onite pany (5)	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	27,432,000
ane quisition,	10/01/2020	Business Services	11.75%	L+1,050	20,625,000	20,334,545	20,831,000
nsus, Inc.	12/02/2020	Financial Services	9.00%	L+800	15,500,000	15,288,541	15,771,000
u Oil & LLC	11/01/2018	Oil and Gas	8.75%	L+750	19,799,984	19,705,318	20,031,000
lina rage p, LLC	08/01/2018	Beverage, Food and Tobacco	10.63%		13,125,000	13,125,000	14,142,000
onologies mediate ings, Inc.	10/05/2020	Business Services	9.25%	L+800	14,000,000	13,814,375	14,052,000
ision quisition pany,	11/04/2021	Healthcare, Education and Childcare	9.75%	L+875	19,000,000	18,641,623	19,190,000
adation ding aterials, LLC	04/30/2019	Building Materials	12.00%	L+1,100	45,000,000	44,550,637	45,077,000
adation ding	04/30/2019	Building Materials	13.00%	L+1,200	32,692,664	32,083,193	32,749,000

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Materials, LLC			(PIK 1.00%)				
Industries,	06/14/2019	Electronics	11.50%	L+1,000	7,500,000	7,224,810	7,350,000
Immediate	03/01/2017	Cargo Transport	11.00%	L+700	3,739,795	3,739,797	1,682,000
Transportation							
LLC ⁽⁵⁾			(PIK 11.00%)				
Cosmetics	07/31/2019	Consumer Products	11.00%	L+1,000	34,000,000	33,352,914	33,951,000
ings, Inc.							
os	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175	38,950,000	38,364,591	39,339,000
ertainment,							
Custom	10/29/2019	Consumer Products	9.50%	L+825	9,500,000	9,364,479	9,606,000
ucts Inc.							
uage	12/20/2016	Personal, Food and	10.50%	L+875	33,750,000	33,356,570	33,555,000
LLC		Miscellaneous Services					
USA GP	10/31/2017	Oil and Gas	12.50%		11,875,000	11,570,211	13,359,000
Line							
ogy							
nce							
A), Inc. ⁽⁵⁾							
Gulf	05/15/2019	Oil and Gas	11.75%		45,000,000	44,595,002	45,000,000
ources,							
⁽⁵⁾							
on Media,	10/02/2020	Media	9.00%	L+775	21,000,000	20,724,103	21,140,000
Paid Legal	07/01/2020	Personal, Food and	9.75%	L+850	56,750,000	55,992,623	57,814,000
ices, Inc.		Miscellaneous Services					
tex Media	12/15/2014	Other Media	9.50%	P+550	2,179,297	2,179,297	2,179,000
op LLC,							
Loan A							
tex Media	12/15/2015	Other Media	11.50%	P+750	2,725,980	2,725,980	2,725,000
op LLC,							
Loan B			(PIK 11.50%)				
Second						466,133,609	476,983,000
Secured							

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2014

(Unaudited)

Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Value
Subordinated Debt/Corporate Notes 31.9%							
LLC	10/02/2017	Electronics	14.00%		19,000,000	\$ 18,677,529	\$ 18,2
Group	09/14/2018	Consumer Products	14.50%		32,418,500	27,703,556	32,0
S, Inc. (5)			(PIK 14.50%)				
Investments	08/15/2018	Consumer Products	13.50%		15,096,000	15,096,000	15,6
	02/15/2019	Financial Services	12.00%		8,930,000	8,787,424	7,8
ologies, LLC	03/26/2018	Electronics	12.00%		23,693,263	23,349,576	23,9
int ologies LLC			(PIK 1.00%)				
fonet, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	12.25%		10,600,000	10,421,429	10,3
isition, LLC	06/30/2017	Distribution	14.00%		19,781,463	19,427,752	19,7
			(PIK 2.00%)				
, Inc.	06/15/2017	Printing and Publishing	14.50%(7)		15,000,000	14,744,082	15,0
lf Resources,	11/15/2019	Oil and Gas	12.00%		13,500,000	13,017,947	11,7
			(PIK 12.00%)				
roducts,	12/11/2020	Electronics	12.75%		15,000,000	14,777,756	15,1
			(PIK 2.00%)				
Reilly	04/15/2019	Other Media	12.50%(7)		30,400,000	29,838,372	30,6
ng y, LLC	06/27/2019	Printing and Publishing	12.00%		39,892,933	39,218,167	40,4
n onal, Inc.							
Subordinated Debt/Corporate Notes						235,059,590	240,8

ed Partnership s 1.7% ⁽⁶⁾					
ldings, Inc.	Healthcare, Education and Childcare	6.00%	211	500,000	
ezzanine,	Other Media		7,505	318,896	
	Financial Services		949	949,050	1
ologies s Corp.					
s ologies, LLC)					
) Investment s, LLC	Healthcare, Education and Childcare	8.00%	76,357	765,307	1,7
) Investment s, LLC ⁽⁹⁾	Healthcare, Education and Childcare		38,179	382,654	8
oint ologies s, LLC	Electronics	8.00%	2,375	2,375,000	2,7
oint ologies LLC)					
smetics US,	Consumer Products	8.00%	3,397	3,397,484	3,9
smetics s, Inc.)					
nt, LLC	Other Media	8.00%	3,591	21,727	
anley-Wood s, LLC)					
ldings, Inc. Ride s, Inc.)	Personal Transportation	8.00%	1,966,667	2,251,667	1,0
ldings, L.P.,	Insurance		686	685,820	6
ldings, L.P.,	Insurance	6.50%	1,312	1,312,006	1,7
Preferred Equity/Partnership Interests				12,959,611	13,0

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2014

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Basis Point Spread Above Current Index Coupon ⁽⁴⁾	Par / Shares
Common Equity/Partnership Interests/Warrants 10.5%⁽⁶⁾				
Acentia, LLC, Class A Units ⁽¹¹⁾		Electronics		1,998 \$
Affinion Group Holdings, Inc., Series A (Warrants)	12/12/2023	Consumer Products		4,798,624
Affinion Group Holdings, Inc., Series B (Warrants)	12/12/2023	Consumer Products		9,822,196
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare		753
Alegeus Technologies Holding Corp. (Alegeus Technologies, LLC)		Financial Services		1
ASP LCG Holdings, Inc. (f/k/a Learning Care Group (US) Inc.) (Warrants)	05/05/2026	Education		933
Autumn Games, LLC		Broadcasting and Entertainment		1,333,330
CI (FBM) Holdings, LLC ⁽¹¹⁾ (Foundation Building Materials, LLC)		Building Materials		207,242
CI (FBM) Holdings, LLC ^{(9), (11)} (Foundation Building Materials, LLC)		Building Materials		103,621
CI (Galls) Prime Investment Holdings, LLC ⁽¹¹⁾		Distribution		1,505,000
CI (IHS) Investment Holdings, LLC		Healthcare, Education and Childcare		23,416
CI (IHS) Investment Holdings, LLC ⁽⁹⁾		Healthcare, Education and Childcare		11,708
Convergent Technologies Holdings, LLC (Convergent Technologies LLC)		Electronics		2,375
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services		5,556
J.A. Cosmetics US, Inc. (J.A. Cosmetics Holdings, Inc.)		Consumer Products		252

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Kadmon Holdings, LLC, Class A		Healthcare, Education and Childcare	1,079,920
Kadmon Holdings, LLC, Class D		Healthcare, Education and Childcare	1,079,920
Lariat ecoserv Co-Invest Holdings, LLC		Environmental Services	1,000,000
Magnum Hunter Resources Corporation (Warrants)	04/16/2016	Oil and Gas	122,192
MidOcean JF Holdings Corp. (JF Acquisitions, LLC)		Distribution	1,850
MidOcean PPL Holdings, Corp. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services	3,000
New Gulf Resources, LLC (Warrants)	05/09/2024	Oil and Gas	13,500
Old Guard Risk Services, Inc. (Warrants)	11/27/2023	Insurance	35,490
Paradigm Acquisition Corp.		Healthcare, Education and Childcare	20,000
Power Products Holdings, LLC, Class A Units ⁽¹¹⁾ (Power Products, LLC)		Electronics	1,350,000
Power Products Holdings, LLC, Class B Units ⁽¹¹⁾ (Power Products, LLC)		Electronics	150,000
QMG HoldCo, LLC, Class A (Questex Media Group, LLC)		Other Media	4,325
QMG HoldCo, LLC, Class B (Questex Media Group, LLC)		Other Media	531
Red Point, LLC (f/k/a Hanley-Wood Holdings, LLC)		Other Media	388,378
Ride Holdings, Inc. (f/k/a VRide Holdings, Inc.)		Personal Transportation	9,882
SPG Boyd Holdings Corp.		Chemical, Plastic and Rubber	3,000
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500
Transportation 100 Holdco, L.L.C. ⁽¹¹⁾ (Intermediate Transportation 100, L.L.C.)		Cargo Transport	137,923
TZ Holdings, L.P.		Insurance	2
Vestcom Parent Holdings, Inc. (Vestcom International, Inc.)		Printing and Publishing	211,797
VText Holdings, Inc.		Business Services	35,526
Z Wireless Holdings, Inc. (Warrants)	10/21/2021	Retail	1,736

Total Common Equity/Partnership Interests/Warrants

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

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****JUNE 30, 2014****(Unaudited)**

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis P Sprea Above Index
Investments in Non-Controlled, Affiliated Portfolio Companies 9.5%^{(1), (2)}				
Second Lien Secured Debt 1.2%				
EnviroSolutions Real Property Holdings, Inc.	12/26/2017	Environmental Services	9.00%	L+8
Subordinated Debt/Corporate Notes 5.2%				
DirectBuy Holdings, Inc.	11/05/2019	Consumer Products	12.00%	
			(PIK 12.00%)	
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%	
Total Subordinated Debt/Corporate Notes				
Preferred Equity 0.1%⁽⁶⁾				
PAS International Holdings, Inc.		Aerospace and Defense		
Common Equity/Partnership Interest/Warrants 3.0%⁽⁶⁾				
DirectBuy Holdings, Inc.		Consumer Products		
DirectBuy Holdings, Inc. (Warrants)	11/05/2022	Consumer Products		
EnviroSolutions Holdings, Inc. (EnviroSolutions Real Property Holdings, Inc.)		Environmental Services		
NCP-Performance, L.P.		Leisure, Amusement, Motion Pictures and Entertainment		
New Service Champ Holdings, Inc. (Service Champ, Inc.)		Auto Sector		
PAS International Holdings, Inc.		Aerospace and Defense		
Total Common Equity/Partnership Interest/Warrants				
Total Investments in Non-Controlled, Affiliated Portfolio Companies				

Investments in Controlled, Affiliated Portfolio Companies 5.0%^{(1), (2)}**First Lien Secured Debt 4.1%**

Superior Digital Displays, LLC	12/31/2018	Media	13.50%	L+1,2
Superior Digital Displays, LLC ⁽⁹⁾	12/31/2018	Media		
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%	⁽⁷⁾

Total First Lien Secured Debt**Subordinated Debt/Corporate Notes 0.3%**

SuttonPark Holdings, Inc.	6/30/2020	Business Services	14.00%	⁽⁷⁾
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Preferred Equity 0.3%⁽⁶⁾

SuttonPark Holdings, Inc.		Business Services	14.00%	
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Common Equity 0.3%⁽⁶⁾

Superior Digital Displays Holdings, Inc. (Superior Digital Displays, LLC)		Media		
SuttonPark Holdings, Inc.		Business Services		

Total Common Equity**Total Investments in Controlled, Affiliated Portfolio Companies****Total Investments 158.8%****Cash and Cash Equivalents 8.6%**

BlackRock Liquidity Funds, Temp Cash, Institutional Shares
BNY Mellon Cash Reserve and Cash

Total Cash and Cash Equivalents**Total Investments and Cash Equivalents 167.4%****Liabilities in Excess of Other Assets (67.4%)****Net Assets 100.0%**

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2014

(Unaudited)

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities (see Note 6).
- (3) Valued based on our accounting policy (see Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London InterBank Offered Rate, or LIBOR, or L or Prime, or P rate. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is payable in cash and/or PIK.
- (8) Coupon is not subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (10) Non-U.S. company or principal place of business outside the U.S.
- (11) Investment is held through a consolidated taxable subsidiary (See Note 1).
- (12) Par amount is denominated in British Pound.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2013**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost
Investments in Non-Controlled, Non-Affiliated Portfolio Companies			138.9%^{(1), (2)}			
First Lien Secured Debt			41.3%			
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975 ⁽⁸⁾	23,912,894	\$ 23,012,05
AKA Diversified Holdings, Inc.	12/21/2016	Retail	12.50%	L+1,225	14,550,084	14,310,55
CEVA Group PLC ^{(5), (10)}	10/01/2016	Cargo Transport	11.63%	(PIK 1.50 %)	7,500,000	7,385,25
Columbus International, Inc. ^{(5), (10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,00
Cydcor LLC	06/12/2017	Business Services	9.75%	L+725 ⁽⁸⁾	7,342,967	7,342,96
Good Sam Enterprises, LLC ⁽⁵⁾	12/01/2016	Consumer Products	11.50%		12,000,000	11,835,90
IDQ Holdings, Inc. ⁽⁵⁾	03/30/2017	Auto Sector	11.50%		11,500,000	11,326,11
InfuSystem Holdings, Inc.	11/30/2016	Healthcare, Education and Childcare	11.95%	P+625 ⁽⁸⁾	11,600,000	11,600,00
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	23,934,268	23,788,98
Instant Web, Inc.	08/07/2014	Printing and Publishing	3.55%	L+338	18,199,679	13,917,28
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950 ⁽⁸⁾	18,050,000	17,770,70
Jackson Hewitt Tax Service Inc.	10/16/2017	Personal, Food and Miscellaneous Services	10.00%	L+850 ⁽⁸⁾	8,355,469	8,349,70
K2 Pure Solutions NoCal, L.P.	08/19/2019	Chemicals, Plastics and Rubber	10.00%	L+900 ⁽⁸⁾	22,342,352	21,899,25

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Penton Media, Inc.	08/01/2014	Other Media	6.00%	L+500 ⁽⁸⁾	37,950,152	36,110,12
			(PIK 2.00 %)			
Prince Mineral Holding Corp. ⁽⁵⁾	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,096,16
TRAK Acquisition Corp.	04/30/2018	Business Services	12.00%	L+1,050 ⁽⁸⁾	34,270,800	33,766,32
Worley Claims Services, LLC	07/06/2017	Insurance	12.50%	L+1,100 ⁽⁸⁾	12,451,096	12,451,09
Total First Lien Secured Debt						278,962,48
Second Lien Secured Debt 48.9%						
American Gilsonite Company ⁽⁵⁾	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,00
Arsloane Acquisition, LLC	10/01/2020	Business Services	11.75%	L+1,050 ⁽⁸⁾	18,750,000	18,375,00
Brand Energy and Infrastructure Services, Inc.	10/23/2019	Energy / Utilities	11.00%	L+975 ⁽⁸⁾	42,278,570	41,471,52
Carolina Beverage Group, LLC	08/01/2018	Beverage, Food and Tobacco	10.63%		13,125,000	13,125,00
Envision Acquisition Company, LLC	11/04/2021	Healthcare, Education and Childcare	9.75%	L+875 ⁽⁸⁾	19,000,000	18,620,00
Eureka Hunter Pipeline, LLC	08/16/2018	Energy / Utilities	12.50%		45,000,000	44,599,79
ILC Industries, LLC	06/14/2019	Electronics	11.50%	L+1,000 ⁽⁸⁾	7,500,000	7,200,00
Intermediate Transportation 100, L.L.C.	03/01/2017	Cargo Transport	11.00%	L+700 ⁽⁸⁾	3,544,833	3,544,83
			(PIK 11.00 %)			
Jacobs Entertainment, Inc.	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175 ⁽⁸⁾	38,950,000	38,287,49
Language Line, LLC	12/20/2016	Personal, Food and Miscellaneous Services	10.50%	L+875 ⁽⁸⁾	33,750,000	33,265,82
Linc USA GP and Linc Energy	10/31/2017	Oil and Gas	12.50%		11,875,000	11,511,87

Finance (USA), Inc. ⁽⁵⁾						
Pre-Paid Legal Services, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	9.75%	L+850 ⁽⁸⁾	56,750,000	55,923,62
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+550 ⁽⁸⁾	2,395,378	2,395,37
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%	P+750 ⁽⁸⁾	2,502,333	2,502,33
ROC Finance LLC and ROC Finance 1 Corp.	08/31/2018	Hotels, Motels, Inns and Gaming	12.13%	(PIK 11.50 %)	16,000,000	15,785,25
Total Second Lien Secured Debt						332,007,94

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2013

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Value (3)
Subordinated Debt/Corporate Notes 37.4%							
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	\$ 18,629,082	\$ 18,879,139
Affinion Group Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,570,664	20,442,400
Alegeus Technologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,773,751	8,888,617
Convergint Technologies LLC	03/26/2018	Electronics	12.00%		23,514,494	23,114,286	23,867,211
			(PIK 1.00%)				
Credit Infonet, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	12.25%		10,600,000	10,399,101	10,653,423
Escort, Inc.	06/01/2016	Electronics	14.75%		25,965,563	25,579,621	26,484,875
			(PIK 2.75%)				
JF Acquisition, LLC	06/30/2017	Distribution	14.00%		17,517,386	17,160,955	17,517,386
			(PIK 2.00%)				
Learning Care Group (US) Inc.	05/08/2020	Education	15.00%		7,215,989	6,754,246	7,215,989
			(PIK 15.00%)				
LTI Flexible Products, Inc.	01/19/2019	Chemicals, Plastics and Rubber	12.50%		30,000,000	30,000,000	30,525,000
LTI Flexible Products, Inc. (9)	01/11/2014	Chemicals, Plastics and Rubber			5,000,000	4,825,000	5,087,500
MSPark, Inc.	06/15/2017	Printing and Publishing	14.50%(7)		15,000,000	14,691,342	14,700,000
Varel International Energy Mezzanine Funding Corp.	01/15/2018	Oil and Gas	14.00%		37,070,637	36,441,726	36,720,586
			(PIK 4.00%)				
	06/27/2019		12.00%		39,892,933	39,147,926	39,827,248

Vestcom
International, Inc.Printing and
Publishing

Total Subordinated Debt/Corporate Notes				270,087,700	260,809,374
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Preferred Equity/Partnership Interests 1.2%⁽⁶⁾

AH Holdings, Inc.	Healthcare, Education and Childcare	6.00%	211	500,000	815,133
AHC Mezzanine, LLC	Other Media		7,505	318,896	
Alegeus Technologies Holdings Corp., Series A (Alegeus Technologies, LLC)	Financial Services		949	949,050	805,697
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)	Healthcare, Education and Childcare	8.00%	76,357	765,307	1,187,410
CI (IHS) Investment Holdings, LLC ⁽⁹⁾ (Interactive Health Solutions, Inc.)	Healthcare, Education and Childcare		38,179	382,654	593,705
Convergint Technologies Holdings, LLC (Convergint Technologies LLC)	Electronics	8.00%	2,375	2,375,000	2,584,106
CT Technologies Holdings, LLC	Business Services	9.00%	326,215	326,215	326,215
HW Topco, Inc.	Other Media	8.00%	3,591	24,177	35,091
TZ Holdings, L.P., Series A	Insurance		686	685,820	685,820
TZ Holdings, L.P., Series B	Insurance	6.50%	1,312	1,312,006	862,664
VRide Holdings, Inc.	Personal Transportation	8.00%	1,824,167	1,824,167	156,029

Total Preferred Equity/Partnership Interests				9,463,292	8,051,870
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Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2013

Issuer Name	Maturity	Industry	Current Coupon Index (4)	Basis Point Spread Above Index (5)	Par / Shares	Cost	Fair Value (3)
Common Equity/Warrants/Partnership Interests 10.1%⁽⁶⁾							
Acentia, LLC, Class A Units ⁽¹²⁾		Electronics			1,998	\$ 2,000,000	\$ 1,572,603
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		2,499,319
Alegeus Technologies Holding Corp., Class A (Alegeus Technologies, LLC)		Financial Services			1	950	807
Autumn Games, LLC		Broadcasting and Entertainment Distribution			1,333,330	3,000,000	
CI (Galls) Prime Investment Holdings, LLC ⁽¹¹⁾					1,505,000	1,505,000	2,308,777
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			23,416	234,693	364,156
CI (IHS) Investment Holdings, LLC ⁽⁹⁾ (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			11,708	117,346	182,078
Convergint Technologies		Electronics			2,375		212,881

Holdings, LLC (Convergent Technologies LLC)					
CT Technologies Holdings, LLC		Business Services	5,556	1,918,346	7,285,399
HW Topco, Inc.		Other Media	386,770	2,697,835	3,400,855
Kadmon Holdings, LLC, Class A		Healthcare, Education and	1,079,920	1,236,832	11,085,403
Kadmon Holdings, LLC, Class D		Childcare Healthcare, Education and	1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Childcare Education	6,649	779,920	4,300,696
Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)		Oil and Gas	1,221,932	3,057,500	7,539,320
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	10/14/2013	Oil and Gas	122,193	105,697	
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	04/16/2016	Oil and Gas	122,193	182,499	205,667
MidOcean JF Holdings Corp. (JF Acquisition, LLC)		Distribution	1,850	1,850,294	1,845,784
MidOcean PPL Holdings, Corp. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous	3,000	3,000,000	5,441,976
Paradigm Acquisition Corp.		Services Healthcare, Education and	20,000	2,000,000	3,720,481
QMG HoldCo, LLC, Class A (Questex Media		Childcare Other Media	4,325	1,306,167	2,073,419

Group, LLC)					
QMG HoldCo, LLC, Class B (Questex Media Group, LLC)		Other Media	531		254,563
SPG Boyd Holdings Corp. (LTI Flexible Products, Inc.)		Chemical, Plastic and Rubber	300,000	3,000,000	5,571,120
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	606,681
Transportation 100 Holdco, L.L.C. ⁽¹³⁾ (Intermediate Transportation 100, L.L.C.)		Cargo Transport	137,923	2,111,588	379,453
TZ Holdings, L.P.		Insurance	2	9,567	
Vestcom Parent Holdings, Inc. (Vestcom International, Inc.)		Printing and Publishing	211,797	2,325,555	2,626,512
VRide Holdings Inc.		Personal Transportation	9,166	9,166	
VText Holdings, Inc.		Business Services	35,526	4,050,000	5,966,074
Total Common Equity/Warrants/Partnership Interests				37,557,162	70,472,831
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies				928,078,589	968,471,042

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2013

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost
Investments in Non-Controlled, Affiliated Portfolio						
Companies 11.0% ^{(1), (2)}						
Subordinated Debt/Corporate Notes 5.7%						
DirectBuy Holdings, Inc.	11/05/2019	Consumer Products	12.00%		11,428,224	\$ 11,428,224
			(PIK 12.00%)			
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%		28,000,000	27,474,713
Total Subordinated Debt/Corporate Notes						38,902,937
Preferred Equity 0.2% ⁽⁶⁾						
PAS International Holdings, Inc.		Aerospace and Defense			53,071	20,059,340
Common Equity/Partnership Interest 5.1% ⁽⁶⁾						
DirectBuy Holdings, Inc.		Consumer Products			104,719	21,492,822
DirectBuy Holdings, Inc. (Warrants)	11/05/2022	Consumer Products			15,486	
EnviroSolutions Holdings, Inc.		Environmental Services			142,684	11,891,822
NCP-Performance, L.P.		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000
New Service Champ Holdings, Inc. (Service Champ, Inc.)		Auto Sector			16,800	2,721,600

PAS International Holdings, Inc.		Aerospace and Defense		53,071	202,620
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Total Common Equity/Partnership Interest					40,058,864
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Total Investments in Non-Controlled, Affiliated Portfolio Companies					99,021,141
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Investments in Controlled, Affiliated Portfolio Companies					4.7% ⁽¹⁾ , (2)
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First Lien Secured**Debt 1.6%**

SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁷⁾	9,250,000	9,250,000
Universal Pegasus International, LLC ⁽⁹⁾	12/31/2015	Oil and Gas		1,916,667	1,787,941

Total First Lien Secured Debt					11,037,941
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Second Lien**Secured Debt 2.4%**

Universal Pegasus International, LLC	12/31/2015	Oil and Gas	15.00%	16,615,645	14,709,502
			(PIK 15.00%)		

Subordinated Debt/Corporate Notes 0.3%

SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁷⁾	2,250,000	2,250,000
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Preferred Equity 0.4%⁽⁶⁾

SuttonPark Holdings, Inc.		Business Services	14.00%	2,000	2,000,000
Universal Pegasus International Holdings, Inc. (Universal Pegasus International, LLC)		Oil and Gas	8.00%	376,988	34,420,612

Total Preferred Equity					36,420,612
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Common Equity 0.0%⁽⁶⁾

SuttonPark Holdings, Inc.		Business Services		100	100
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Total Investments in Controlled, Affiliated Portfolio Companies					64,418,155
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Total Investments	154.6%	1,091,517,885
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Cash and Cash**Equivalents 8.4%**

Cash		2,667,511
BlackRock Liquidity Funds, Temp Cash, Institutional Shares		2,446,232
BNY Mellon Cash Reserve		53,327,086

Total Cash Equivalents		58,440,829
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Total Investments and Cash Equivalents	163.0%	\$ 1,149,958,714
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Liabilities in Excess of Other Assets (63.0%)**Net Assets 100.0%**

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities (see Note 6).
- (3) Valued based on our accounting policy (see Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, or L or Prime, or P rate.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is payable in cash and/or PIK.
- (8) Coupon is subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investments). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the U.S.
- (11) Investment is held through PNNT CI (Galls) Prime Investment Holdings, LLC, a consolidated subsidiary.
- (12) Investment is held through PNNT Acentia LLC, a consolidated subsidiary.
- (13) Investment is held through PNNT Transportation 100 Holdco, L.L.C., a consolidated subsidiary.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

(Unaudited)

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation in January 2007. PennantPark Investment is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC. PennantPark Investment's objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and, to a lesser extent, equity investments. On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol PNNT. Our 2025 Notes trade on the New York Stock Exchange, or the NYSE, under the symbol PNTA.

We have entered into an investment management agreement, or the Investment Management Agreement, with the Investment Adviser, an external adviser that manages our day-to-day operations. We have also entered into an administration agreement, or the Administration Agreement, with the Administrator, which provides the administrative services necessary for us to operate. PennantPark Investment, through the Investment Adviser, manages day-to-day operations of and provides investment advisory services to each of our SBIC Funds under separate investment management agreements. PennantPark Investment, through the Administrator, also provides similar services to each of our SBIC Funds and our controlled affiliate SuttonPark Holdings, Inc. and its subsidiaries, or SPH, under separate administration agreements. See Note 3.

Our wholly owned subsidiaries, SBIC LP and SBIC II, were organized as Delaware limited partnerships in May 2010 and July 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as small business investment companies, or SBICs, under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act, in July 2010 and January 2013, respectively. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

We have formed and expect to continue to form certain taxable subsidiaries, or the Taxable Subsidiaries, which are taxed as corporations for federal income tax purposes. These Taxable Subsidiaries allow us to hold equity securities of certain portfolio companies organized as pass-through entities while continuing to satisfy the requirements of a RIC under the Code.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We reclassified certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the Accounting Standards Codification, or ASC,

serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

Our Consolidated Financial Statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K/Q and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

Our significant accounting policies consistently applied are as follows:

(a) Investment Valuations

We expect that there will not be readily available market values for many of our investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy, described in this Report, and a consistently applied valuation process. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material. See Note 5.

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

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

- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers/dealers, if available, or otherwise by a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014

(Unaudited)

(b) Security Transactions, Revenue Recognition, and Realized/Unrealized Gains or Losses

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments, our Credit Facility and our 2025 Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectable. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount, or OID, market discount or premium and deferred financing costs are capitalized, on liabilities which we do not fair value, and then accreted or amortized using the effective interest method as interest income or interest expense as it relates to our deferred financing costs. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

(c) Income Taxes

We have complied with the requirements of Subchapter M of the Code and expect to be subject to taxation as a RIC. As a result, we account for income taxes using the asset liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon PennantPark Investment's qualification and election to be subject to tax as a RIC, we do not anticipate paying any material level of federal income taxes in the future. Although we are not subject to tax on our income as a RIC, we may elect to retain a portion of our calendar year income. As a result, for both the three and nine months ended June 30, 2014, we accrued estimated taxes of less than \$0.1 million. For the three and nine months ended June 30, 2013, we accrued a tax expense (benefit) of less than \$0.1 million and \$(0.1) million, respectively.

PennantPark Investment recognizes in its Consolidated Financial Statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. We did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2010 remain subject to examination by the Internal Revenue Service.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. We do not consolidate the Taxable Subsidiaries for income tax purposes, but we do consolidate the results of these Taxable Subsidiaries for financial reporting purposes.

(d) Distributions and Capital Transactions

Distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid, if any, as a distribution is ratified 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. The tax attributes for distributions will generally include ordinary income and capital gains, but may also include qualified dividends and/or a return of capital.

Capital transactions, in connection with our dividend reinvestment plan or through offerings of our common stock, are recorded when issued and offering costs are charged as a reduction of capital upon issuance of our common stock.

(e) Foreign Currency Translation

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments and debt from the fluctuations arising from changes in fair values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices to be more volatile than those of comparable U.S. companies or U.S. government securities.

(f) Consolidation

As permitted under Regulation S-X and as explained by ASC 946-810-45, PennantPark Investment will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating

company whose business consists of providing services to us. Accordingly, we have consolidated the results of our SBIC Funds and our Taxable Subsidiaries in our Consolidated Financial Statements.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014

(Unaudited)

(g) Recent Accounting Pronouncements

In June 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements (ASU 2013-08). ASU 2013-08 provides an approach to assess whether a company is an investment company, clarifies the characteristics of an investment company, and provides new measurement and disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. We are currently evaluating ASU 2013-08 to determine the effect, if any, on our Consolidated Financial Statements and disclosures.

3. AGREEMENTS

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2014. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to PennantPark Investment. Our SBIC Funds investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets, which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded delayed draw loans, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average 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 example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the three and nine months ended June 30, 2014, the Investment Adviser earned base management fees of \$6.1 million and \$17.9 million, respectively, from us. For the three and nine months ended June 30, 2013, the Investment Adviser earned base management fees of \$5.4 million and \$15.9 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees, other than fees for providing managerial

assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains on investments, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are adjusted for any share issuances or repurchases during the relevant quarter. For the three and nine months ended June 30, 2014, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$3.7 million and \$13.2 million, respectively, from us. For the three and nine months ended June 30, 2013, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$4.4 million and \$12.5 million, respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains on investments, 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. For each of the three and nine months ended June 30, 2014 and 2013, the Investment Adviser did not earn an incentive fee on capital gains as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments and foreign currencies held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For each of the three and nine months ended June 30, 2014, the Investment Adviser accrued an incentive fee on unrealized and realized capital gains as calculated under GAAP of \$1.7 million. For each of the three and nine months ended June 30, 2013, the Investment Adviser did not accrue an incentive fee on capital gains as calculated under GAAP.

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2014. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. The Administrator provides similar services to our SBIC Funds under each of their administration agreements with PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment has 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, technology systems, insurance and PennantPark Investment's allocable portion of the costs of compensation and related expenses for its Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on PennantPark Investment's behalf, managerial assistance to portfolio companies to which PennantPark Investment is required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statement of Operations. For the three and nine months ended June 30, 2014, the Investment Adviser was reimbursed \$0.6 million and \$2.7 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above. For the three and nine months ended June 30, 2013, the Investment Adviser was reimbursed \$0.5 million and \$2.5 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2014****(Unaudited)**

PennantPark Investment has entered into an administration agreement with its controlled affiliate SPH. Under the administration agreement with SPH, or the SPH Administration Agreement, PennantPark Investment through the Administrator furnishes SPH with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Additionally, the Administrator performs or oversees the performance of SPH's required administrative services, which include, among other things, maintaining financial records, preparing financial reports and filing tax returns. Payments under the SPH Administration Agreement are equal to an amount based upon SPH's allocable portion of the Administrator's overhead in performing its obligations under the SPH Administration Agreement, including rent and allocable portion of the cost of compensation and related expenses of our Chief Financial Officer and his staff. For the three and nine months ended June 30, 2014, PennantPark Investment was reimbursed \$0.1 million and \$0.4 million, respectively, for the services described above. For the three and nine months ended June 30, 2013, PennantPark Investment was reimbursed \$0.1 million and \$0.3 million, respectively, for the services described above.

4. INVESTMENTS

Purchases of investments, including PIK, for the three and nine months ended June 30, 2014 totaled \$193.7 million and \$568.4 million, respectively. For the same periods in the prior year, purchases of investments, including PIK, totaled \$76.6 million and \$326.8 million, respectively. Sales and repayments of investments for the three and nine months ended June 30, 2014 totaled \$273.6 million and \$534.4 million, respectively. For the same periods in the prior year, sales and repayments of investments totaled \$117.8 million and \$271.2 million, respectively.

Investments and cash and cash equivalents consisted of the following:

Investment Classification	June 30, 2014		September 30, 2013	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 297,962,276	\$ 310,190,839	\$ 290,000,430	\$ 299,516,291
Second lien	475,288,084	486,110,731	346,717,448	357,543,217
Subordinated debt / corporate notes	276,156,571	282,432,876	311,240,637	302,447,308
Preferred equity and partnership interests	35,018,951	15,807,778	65,943,244	12,830,669
Common equity and partnership interests	89,994,935	103,865,331	77,616,126	105,838,068
Total investments	1,174,420,817	1,198,407,555	1,091,517,885	1,078,175,553
Cash and cash equivalents	64,349,609	64,390,787	58,440,829	58,440,829

Total investments, cash and cash equivalents	\$ 1,238,770,426	\$ 1,262,798,342	\$ 1,149,958,714	\$ 1,136,616,382
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The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash equivalents) in such industries as of:

Industry Classification	June 30, 2014	September 30, 2013
Consumer Products	10%	5%
Personal, Food and Miscellaneous Services	10	11
Oil and Gas	9	7
Buildings Materials	7	
Business Services	7	8
Electronics	7	8
Printing and Publishing	5	9
Auto Sector	4	4
Buildings and Real Estate	4	
Healthcare, Education and Childcare	4	7
Hotels, Motels, Inns and Gaming	4	5
Insurance	4	1
Media	4	
Other Media	3	5
Retail	3	
Chemicals, Plastics and Rubber	2	6
Communications	2	3
Distribution	2	2
Diversified Natural Resources, Precious Metals and Minerals	2	2
Environmental Services	2	2
Financial Services	2	2
Energy/Utilities		8
Other	3	5
Total	100%	100%

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014

(Unaudited)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting period date.

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material. A review of fair value hierarchy classifications is conducted on a quarterly basis.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data are available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence was available. Corroborating evidence that would result in classifying these non-binding broker/dealer bids as a Level 2 asset includes observable market-based transactions for the same or similar assets or other relevant observable market-based inputs that may be used in

pricing an asset.

Our investments are generally structured as debt and equity investments in the form of senior secured loans, mezzanine debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. Within our fair value hierarchy table, our investments are generally categorized as first lien, second lien, subordinated debt and preferred and common equity investments. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the nine months ended June 30, 2014, our ability to observe valuation inputs has resulted in no reclassification of assets between any levels. This compares to the nine months ended June 30, 2013, which resulted in the reclassification of one asset from Level 3 to 2 and no other transfers between levels.

In addition to using the above inputs in cash equivalents, investments, the 2025 Notes and our long-term Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value. See Note 2.

As outlined in the table below, some of our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids include a disclaimer, may not have corroborating evidence and may be the result of consensus pricing. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such bids do not reflect the fair value on 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.

The remainder of our portfolio, including our long-term Credit Facility, is valued using a market comparable or an enterprise market value technique. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the pricing indicated by the external event, excluding transaction costs, is used to corroborate the valuation. When using earnings multiples to value a portfolio company, the multiple used requires the use of judgment and estimates in determining how a market participant would price such an asset. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy. Generally, the sensitivity of unobservable inputs or combination of inputs such as industry comparable companies, market outlook, consistency, discount rates and reliability of earnings and prospects for growth, or lack thereof, affects the multiple used in pricing an investment. As a result, any change in any one of those factors may have a significant impact on the valuation of an investment.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2014****(Unaudited)**

Our Level 3 valuation techniques, unobservable inputs and ranges were categorized as follows for ASC 820 purposes:

Description	Fair Value at June 30, 2014	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)	
Debt investments	\$ 379,984,051	Market Comparable	Broker/Dealer bid quotes	N/A	
Debt investments	650,956,240	Market Comparable	Market Yield	7.4%	21.4% (13.1%)
Equity investments	12,912,799	Market Comparable	Broker/Dealer bid quotes	N/A	
Equity investments	106,482,931	Enterprise Market Value	EBITDA multiple	3.8x	13.0x (8.5x)
Total Level 3 investments	1,150,336,021				
Long-Term Credit Facility	\$ 257,187,292	Market Comparable	Market Yield	3.3%	

Description	Fair Value at September 30, 2013	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)	
Debt investments	\$ 448,842,468	Market Comparable	Broker/Dealer bid quotes	N/A	
Debt investments	466,571,947	Market Comparable	Market Yield	9.5%	21.5% (13.5%)
Equity investments	110,923,751	Enterprise Market Value	EBITDA multiple	6.0x	15.0x (9.0x)
Total Level 3 investments	1,026,338,166				
Long-Term Credit Facility	\$ 117,500,000	Market Comparable	Market Yield	3.6%	

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Our cash and cash equivalents, investments, the 2025 Notes and Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes:

Description	Fair Value	Fair Value at June 30, 2014		
		Level 1	Level 2	Level 3
Debt investments	\$ 1,078,734,446	\$	\$ 47,794,155	\$ 1,030,940,291
Equity investments	119,673,109		277,379	119,395,730
Total investments	1,198,407,555		48,071,534	1,150,336,021
Cash and cash equivalents	64,390,787	64,390,787		
Total investments, cash and cash equivalents	\$ 1,262,798,342	\$ 64,390,787	\$ 48,071,534	\$ 1,150,336,021
Long-Term Credit Facility	\$ 257,187,292	\$	\$	\$ 257,187,292
2025 Notes	72,532,500	72,532,500		
Total debt	\$ 329,719,792	\$ 72,532,500	\$	\$ 257,187,292

Description	Fair Value	Fair Value at September 30, 2013		
		Level 1	Level 2	Level 3
Debt investments	\$ 959,506,815	\$	\$ 44,092,400	\$ 915,414,415
Equity investments	118,668,738	7,539,320	205,667	110,923,751
Total investments	1,078,175,553	7,539,320	44,298,067	1,026,338,166
Cash and cash equivalents	58,440,829	58,440,829		
Total investments, cash and cash equivalents	\$ 1,136,616,382	\$ 65,980,149	\$ 44,298,067	\$ 1,026,338,166
Long-Term Credit Facility (excluding temporary draws of \$28,000,000)	\$ 117,500,000	\$	\$	\$ 117,500,000
2025 Notes	68,400,000	68,400,000		
Total debt	\$ 185,900,000	\$ 68,400,000	\$	\$ 117,500,000

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2014****(Unaudited)**

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

Nine Months Ended June 30, 2014

Description	Debt investments	Equity investments	Totals
Beginning Balance	\$ 915,414,415	\$ 110,923,751	\$ 1,026,338,166
Realized gains	18,101,010	3,875,493	21,976,503
Unrealized appreciation	470,447	23,854,264	24,324,711
Purchases, PIK, net discount accretion and non-cash exchanges	554,355,726	23,424,660	577,780,386
Sales, repayments and non-cash exchanges	(457,401,305)	(42,682,440)	(500,083,745)
Transfers in and/or out of Level 3			
Ending Balance	\$ 1,030,940,293	\$ 119,395,728	\$ 1,150,336,021

Net change in unrealized appreciation reported within the net change in unrealized appreciation (depreciation) on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date.

	\$ 12,355,525	\$ (9,463,794)	\$ 2,891,731
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Nine Months Ended June 30, 2013

Description	Debt investments	Equity investments	Totals
Beginning Balance	\$ 848,424,071	\$ 101,323,123	\$ 949,747,194
Realized gains	3,757,501	3,311,652	7,069,153
Unrealized appreciation (depreciation)	34,351,022	(21,019,509)	13,331,513
Purchases, PIK, net discount accretion and non-cash exchanges	321,218,848	46,591,490	367,810,338
Sales, repayments and non-cash exchanges	(294,037,878)	(10,606,534)	(304,644,412)
Transfers in and/or out of Level 3	(12,840,000)		(12,840,000)
Ending Balance	\$ 900,873,564	\$ 119,600,222	\$ 1,020,473,786

Net change in unrealized appreciation (depreciation) reported within the net change in unrealized appreciation (depreciation) on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date.

\$ 36,781,749 \$ (18,334,568) \$ 18,447,181

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

Long Term Credit Facility	Carrying/Fair Value	
	Nine Months Ended June 30,	2013
	2014	
Beginning Balance (cost \$117,500,000 and \$109,500,000, respectively)	\$ 117,500,000	\$ 108,952,500
Net change in fair value	1,288,592	547,500
Borrowings ⁽¹⁾	591,053,100	532,800,000
Repayments ⁽¹⁾	(452,654,400)	(538,800,000)
Transfers in and/or out of Level 3		
Ending Balance (cost \$255,898,700 and \$103,500,000, respectively)	\$ 257,187,292	\$ 103,500,000
Temporary draws outstanding, at cost		11,000,000
Ending Balance (cost \$255,898,700 and \$114,500,000, respectively)	\$ 257,187,292	\$ 114,500,000

⁽¹⁾ Excludes temporary draws.

As of June 30, 2014, we had outstanding non-USD borrowing on our Credit Facility denominated in British Pounds. Net change in fair value on these outstanding borrowings is listed below:

Foreign Currency	Local Currency	Original Borrowing Cost	Current Value	Reset Date	Net Change in Fair Value
British Pound	£ 27,000,000	\$ 45,154,800	\$ 46,207,556	July 1, 2014	\$ 1,052,756
British Pound	7,000,000	11,743,900	11,979,736	September 11, 2014	235,836
	£ 34,000,000	\$ 56,898,700	\$ 58,187,292		\$ 1,288,592

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2014****(Unaudited)**

We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our 2025 Notes. We elected to use the fair value option for the Credit Facility and the 2025 Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred non-recurring expenses of \$3.9 million relating to debt issuance costs on the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and 2025 Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three and nine months ended June 30, 2014, our Credit Facility and 2025 Notes had a net change in unrealized appreciation of \$3.4 million and \$5.4 million, respectively. For the three and nine months ended June 30, 2013, our Credit Facility and 2025 Notes had a net change in unrealized depreciation (appreciation) of \$0.4 million and \$(0.5) million, respectively. As of June 30, 2014 and September 30, 2013, net unrealized (appreciation) depreciation on our Credit Facility and 2025 Notes totaled \$(2.6) million and \$2.9 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments. Our 2025 Notes trade on the NYSE, under the ticker "PNTA" and we use the closing price on the exchange to determine their fair value.

6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A non-controlled affiliate is a portfolio company in which we own at least 5% but less than 25% of its voting securities and a controlled affiliate is a portfolio company in which we own 25% or more of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the nine months ended June 30, 2014 were as follows:

Name of Investment	Fair Value at September 30, 2013	Purchases of / Advances to Affiliates	Sale of / Distributions from Affiliates	Income Accrued	Fair Value at June 30, 2014	Net Realized (Losses)
Controlled Affiliates						
Superior Digital Displays Holdings, Inc.	\$	\$ 19,330,914	\$	\$ 1,213,801	\$ 18,574,163	\$

uttonPark Holdings, Inc.	13,500,000	3,500,000	(3,500,000)	1,257,472	13,499,999	
iversal Pegasus International, LLC	17,552,044	22,592,260	(72,539,605)	4,059,881		(46,895)
Non-Controlled Affiliates						
irectBuy Holdings, Inc.	17,805,936	991,130	(1,126,015)	996,312	12,757,080	
nviroSolutions Holdings, Inc.	21,265,345	9,196,328		473,990	24,563,138	
CP-Performance, L.P.	2,500,165				157,518	
AS International Holdings, Inc.	1,694,296				806,679	
ervice Champ, Inc.	33,470,058			2,703,931	33,655,320	
Total Controlled and Non-Controlled Affiliates						
	\$ 107,787,844	\$ 55,610,632	\$ (77,165,620)	\$ 10,705,387	\$ 104,013,897	\$ (46,895)

7. CHANGE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Numerator for net increase in net assets resulting from operations	\$ 31,949,311	\$ 13,785,532	\$ 112,085,415	\$ 69,299,053
Denominator for basic and diluted weighted average shares	66,569,036	66,450,117	66,561,520	66,340,895
Basic and diluted net increase in net assets resulting from operations per share	\$ 0.48	\$ 0.21	\$ 1.68	\$ 1.05

8. CASH AND CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out our positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from average adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of June 30, 2014 and September 30, 2013, cash and cash equivalents consisted of \$64.4 million and \$58.4 million, respectively.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2014****(Unaudited)****9. FINANCIAL HIGHLIGHTS**

Below are the financial highlights:

	Nine Months Ended June 30,	
	2014	2013
Per Share Data:		
Net asset value, beginning of period	\$ 10.49	\$ 10.22
Net investment income ⁽¹⁾	0.77	0.76
Net realized and unrealized gain ⁽¹⁾	0.91	0.29
Net increase in net assets resulting from operations ⁽¹⁾	1.68	1.05
Distributions to stockholders ^{(1), (2)}	(0.84)	(0.84)
Net asset value, end of period	\$ 11.33	\$ 10.43
Per share market value, end of period	\$ 11.46	\$ 11.05

Total return* ⁽³⁾		9.30%		12.20%
Shares outstanding at end of period		66,569,036		66,450,117
Ratios** / Supplemental Data:				
Ratio of operating expenses to average net assets ⁽⁴⁾		6.90%		6.48%
Ratio of debt related expenses to average net assets ⁽⁵⁾		3.19%		2.56%
Ratio of total expenses to average net assets		10.09%		9.04%
Ratio of net investment income to average net assets ⁽⁵⁾		9.45%		9.70%
Net assets at end of period	\$	754,472,793	\$	693,102,657
Weighted average debt outstanding ⁽⁶⁾	\$	498,062,949	\$	362,661,538
Weighted average debt per share ⁽⁶⁾	\$	7.48	\$	5.47
Asset coverage per unit at end of period ⁽⁷⁾	\$	3,288	\$	4,731
Portfolio turnover ratio		59.31%		33.72%

* Not annualized for periods less than one year.

** Annualized for periods less than one year.

(1) Based on the weighted average shares outstanding for the respective periods.

(2) Based on taxable income calculated in accordance with income tax regulations and may differ from amounts determined under GAAP.

(3) Based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.

(4) Operating expenses exclude debt related costs.

(5) Ratios neither annualize the Credit Facility debt issuance costs nor 2025 Notes offering costs.

(6) Includes SBA debentures outstanding.

(7) The asset coverage ratio for a class of senior securities representing indebtedness is calculated on our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by the senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the asset coverage per unit. These amounts exclude SBIC LP's SBA debentures from our asset coverage per unit computation pursuant to an exemptive relief letter provided by the SEC in June 2011.

10. DEBT

Our annualized weighted average cost of debt for the nine months ended June 30, 2014 and 2013, inclusive of the fee on the undrawn commitment on the Credit Facility and amortized upfront fees on SBA debentures but excluding debt issuance costs, was 3.94% and 4.15%, respectively. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing, excluding SBA debentures, pursuant to exemptive relief from the SEC received in June 2011.

Credit Facility

On June 25, 2014, we amended and restated our multi-currency Credit Facility to increase the amount available for borrowing from \$445 million to \$545 million, reduce the interest rate spread above LIBOR from 2.75% to 2.25%, reduce the undrawn commitment fee from 0.50% to 0.375% and extend the maturity date from February 21, 2016 to June 25, 2019. This multi-currency Credit Facility is with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of June 30, 2014 and September 30, 2013, there was \$255.9 million and \$145.5 million (including a temporary draw of \$28.0 million), respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 2.52% and 3.33%, exclusive of the fee on undrawn commitments of 0.375% and 0.50%, respectively. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. The Credit Facility is secured by

substantially all of our assets excluding assets held by our SBIC Funds.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2014****(Unaudited)*****SBA Debentures***

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150.0 million as of June 30, 2014. We have funded SBIC II with \$37.5 million of equity capital and we received a commitment from the SBA to allow SBIC II to access \$75.0 million in SBA debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$225.0 million in the aggregate.

As of June 30, 2014 and September 30, 2013, our SBIC Funds had \$225.0 million and \$150.0 million in debt commitments, respectively, and \$150.0 million was drawn for each period.

Our fixed-rate SBA debentures as of June 30, 2014 and September 30, 2013 were as follows:

Issuance Dates	Maturity Dates	Fixed All-In Coupon Rate	Principal Balance
September 22, 2010	September 1, 2020	3.50%	\$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000
Weighted Average Rate / Total		3.70%	\$ 150,000,000

Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investing in certain industries, requiring capitalization thresholds and being subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). If our SBIC Funds fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit their use of debentures, declare outstanding debentures immediately due and payable and/or limit them from making new investments. These actions by the SBA would, in turn, negatively affect us because our SBIC Funds are wholly owned by us.

2025 Notes

As of June 30, 2014 and September 30, 2013, we had \$71.3 million in aggregate principal amount of 2025 Notes. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. We may redeem the 2025 Notes in whole or in part at any time or from time to time on or after February 1, 2016. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

11. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments and/or revolving lines of credit, if any.

We, in the ordinary course of business, have guaranteed certain obligations of SPH. The guaranties are only triggered if there were administrative errors in acquiring assets which SPH subsequently sold or securitized. As of June 30, 2014 and September 30, 2013, our maximum guaranty was \$11.3 million and \$13.0 million, respectively. Based on SPH's and industry historical loss rates we believe the risk of loss is remote, thus, we have not recorded a liability associated with the guaranties. The current guaranties will decline over time.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

We have reviewed the accompanying consolidated statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (the Company), including the consolidated schedule of investments, as of June 30, 2014, the consolidated statements of operations for the three and nine months ended June 30, 2014, and the consolidated statements of changes in net assets, and cash flows for the nine months ended June 30, 2014. These consolidated financial statements are the responsibility of the Company's management.

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

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

New York, New York

August 5, 2014

Table of Contents

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FORWARD-LOOKING STATEMENTS**

This Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiaries regarding future events or our future performance or our future financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our Company, our industry, our beliefs and our assumptions. The forward-looking statements contained in this 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 and foreign exchange rates on our business and our portfolio companies;

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

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

the impact of future legislation and regulation on our business and our portfolio companies; and

the impact of European sovereign debt issues.

We use words such as anticipates, believes, expects, intends, seeks, plans, estimates and similar expressions to identify forward-looking statements. You should not place undue influence on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason including the factors set forth in Risk Factors in our annual report on Form 10-K for the fiscal year-ended September 30, 2013 and elsewhere in this Report.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Report should not be regarded as a representation by us that our plans and objectives will be achieved.

We have based the forward-looking statements included in this 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 reports on Form 10-Q/K and current reports on Form 8-K.

You should understand that under Section 27A(b)(2)(B) of the Securities Act, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, or the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

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

Overview

PennantPark Investment Corporation is a BDC whose objectives are to generate both current income and capital appreciation through debt and equity investments primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and equity investments.

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 million to \$50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national

rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

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. We have used, and expect to continue to use, our Credit Facility, SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Table of Contents

Organization and Structure of PennantPark Investment Corporation

PennantPark Investment Corporation, a Maryland corporation organized in January 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we have elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our wholly owned subsidiaries, SBIC LP and SBIC II, were organized as Delaware limited partnerships in May 2010 and July 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as SBICs, under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act, in July 2010 and January 2013, respectively. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

Our investment activities are managed by the Investment Adviser. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements. Our SBIC Funds investment management agreements do not affect the management and incentive fees on a consolidated basis. We have also entered into an Administration Agreement with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements with us. Our board of directors, a majority of whom are independent of us, supervises our activities, and the Investment Adviser manages our day-to-day activities.

Revenues

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

Expenses

Our primary operating expenses include the payment of a base management fee to our Investment Adviser, the payment of an incentive fee to our Investment Adviser, if any, 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 and unused commitment fees under our various debt facilities. We bear all other direct or indirect costs and expenses of our operations and transactions,

including:

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

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

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

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

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal, state and foreign registration fees and any exchange listing fees;

federal, state, local and foreign taxes;

independent directors' fees and expenses;

brokerage commissions;

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

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

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

costs associated with our reporting and compliance obligations under the 1940 Act, the 1958 Act and applicable federal and state securities laws; and

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

Generally, during periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

Table of Contents**PORTFOLIO AND INVESTMENT ACTIVITY**

As of June 30, 2014, our portfolio totaled \$1,198.4 million and consisted of \$310.2 million of senior secured loans, \$486.1 million of second lien secured debt, \$282.4 million of subordinated debt and \$119.7 million of preferred and common equity investments. Our debt portfolio consisted of 39% fixed-rate and 61% variable-rate investments (including 53% with a LIBOR or prime floor). Our overall portfolio consisted of 66 companies with an average investment size of \$18.2 million, had a weighted average yield on debt investments of 12.3% and was invested 26% in senior secured loans, 40% in second lien secured debt, 24% in subordinated debt and 10% in preferred and common equity investments.

As of September 30, 2013, our portfolio totaled \$1,078.2 million and consisted of \$299.5 million of senior secured loans, \$357.5 million of second lien secured debt, \$302.5 million of subordinated debt and \$118.7 million of preferred and common equity investments. Our debt portfolio consisted of 52% fixed-rate and 48% variable-rate investments (including 44% with a LIBOR or prime floor). Our overall portfolio consisted of 61 companies with an average investment size of \$17.7 million, had a weighted average yield on debt investments of 13.0% and was invested 28% in senior secured loans, 33% in second lien secured debt, 28% in subordinated debt and 11% in preferred and common equity investments.

For the three months ended June 30, 2014, we invested \$191.8 million in three new and nine existing portfolio companies with a weighted average yield on debt investments of 11.7%. Sales and repayments of investments for the three months ended June 30, 2014 totaled \$273.6 million. For the nine months ended June 30, 2014, we invested \$561.8 million in 16 new and 22 existing portfolio companies with a weighted average yield on debt investments of 12.1%. Sales and repayments of investments for the nine months ended June 30, 2014 totaled \$534.4 million.

For the three months ended June 30, 2013, we invested \$73.3 million in two new and five existing portfolio companies with a weighted average yield on debt investments of 12.9%. Sales and repayments of investments for the three months ended June 30, 2013 totaled \$117.8 million. For the nine months ended June 30, 2013, we invested \$317.2 million in eight new and 19 existing portfolio companies with a weighted average yield on debt investments of 12.9%. Sales and repayments of investments for the nine months ended June 30, 2013 totaled \$271.2 million.

CRITICAL ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We reclassified certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the ASC serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

Valuation of Portfolio Investments

We expect that there may not be readily available market values for many of our investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy described in this Report and a consistently applied valuation

process. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may differ from our valuation and the difference could be material.

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

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

Our investments generally consist of illiquid securities, including debt and equity investments. Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers/dealers, if available, or otherwise by a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If our board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the

investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting period date.

Table of Contents

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

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

In addition to using the above inputs in cash equivalents, investments, the 2025 Notes and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our 2025 Notes. We elected to use the fair value option for the Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred non-recurring expenses of \$3.9 million relating to debt issuance costs on the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and 2025 Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three and nine months ended June 30, 2014, our Credit Facility and 2025 Notes had a net change in unrealized appreciation of \$3.4 million and \$5.4 million, respectively. For the three and nine months ended June 30, 2013, our Credit Facility and 2025 Notes had a net change in unrealized depreciation (appreciation) of \$0.4 million and \$(0.5) million, respectively. As of June 30, 2014 and September 30, 2013, net unrealized (appreciation) depreciation on our Credit Facility and 2025 Notes totaled \$(2.6) million and \$2.9 million, respectively. We use a nationally recognized independent valuation service to fair value our Credit Facility in a manner consistent with the valuation process that the board of directors approves to value investments. Our 2025 Notes trade on the NYSE and we use the closing price on the exchange to determine their fair value.

Revenue Recognition

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

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

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

Foreign Currency Translation

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments and debt from the fluctuations arising from changes in fair values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

Payment-In-Kind Interest, or PIK

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

Federal Income Taxes

We have elected to be taxed, and intend to qualify annually to maintain our election to be taxed, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements. We also must annually distribute at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our net ordinary income for the

calendar year, (2) 98.2% of the sum of our net capital gains income (i.e. the excess, if any, of our capital gains over capital losses) for the one-year period ending on October 31 of the calendar year and (3) the sum of any net ordinary income plus net capital gain income for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or net ordinary income to provide us with additional liquidity.

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

Table of Contents***Recent Accounting Pronouncements***

In June 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements (ASU 2013-08). ASU 2013-08 provides an approach to assess whether a company is an investment company, clarifies the characteristics of an investment company, and provides new measurement and disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. We are currently evaluating ASU 2013-08 to determine the effect, if any, on our Consolidated Financial Statements and disclosures.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the three and nine months ended June 30, 2014 and 2013.

Investment Income

Investment income for the three and nine months ended June 30, 2014 was \$35.5 million and \$107.8 million, respectively, and was attributable to \$9.8 million and \$30.0 million from senior secured loans, \$13.3 million and \$39.9 million from second lien secured debt investments, \$11.6 million and \$35.7 million from subordinated debt investments, and \$0.8 million and \$2.2 million from equity investments, respectively. This compares to investment income for the three and nine months ended June 30, 2013, which was \$33.7 million and \$97.7 million, respectively, and was attributable to \$11.6 million and \$29.6 million from senior secured loans, \$7.9 million and \$22.9 million from second lien secured debt investments, \$14.2 million and \$43.9 million from subordinated debt investments, and zero and \$1.3 million from equity investments, respectively. The increase in investment income compared with the same period in the prior year was primarily due to the growth of our portfolio.

Expenses

Expenses for the three and nine months ended June 30, 2014 totaled \$22.3 million and \$56.6 million, respectively. Base management fee for the same periods totaled \$6.1 million and \$17.9 million, incentive fees totaled \$5.4 million and \$14.9 million (including \$1.6 million on net realized gains accrued but not payable), debt related interest and expenses totaled \$8.9 million and \$18.6 million (including \$3.9 million of Credit Facility debt issuance costs) and general and administrative expenses totaled \$1.9 million and \$5.2 million, respectively.

This compares to expenses for the three and nine months ended June 30, 2013, which totaled \$16.1 million and \$47.8 million, respectively. Base management fee for the same periods totaled \$5.4 million and \$15.9 million, incentive fees totaled \$4.4 million and \$12.5 million, debt related interest and expenses (including the \$0.3 million and \$2.7 million of debt issuance costs associated with our 2025 Notes, respectively) totaled \$4.6 million and \$14.0 million and general and administrative expenses and excise tax totaled \$1.7 million and \$5.4 million, respectively. The increase in expenses was primarily due to both growing our portfolio and expanding our borrowing capacity under our Credit Facility.

Net Investment Income

Net investment income totaled \$13.2 million and \$51.2 million, or \$0.20 and \$0.77 per share, for the three and nine months ended June 30, 2014, respectively. Net investment income totaled \$17.7 million and \$49.9 million, or \$0.27 and \$0.76 per share, for the three and nine months ended June 30, 2013, respectively. The decrease in net investment income for the three months ended June 30, 2014 compared to the same period in the prior year was due to debt

issuance costs that were not incurred in the comparable period. The increase in net investment income for the nine months ended June 30, 2014 was due to the growth of our portfolio offset by higher financing costs and debt issuance costs.

Net Realized Gains or Losses

Sales and repayments of investments for the three and nine months ended June 30, 2014 totaled \$273.6 million and \$534.4 million, respectively, and realized gains totaled \$23.3 million and \$29.0 million, respectively. Sales and repayments of investments for the three and nine months ended June 30, 2013 totaled \$117.8 million and \$271.2 million, respectively, and realized gains totaled \$15.7 million and \$14.7 million, respectively. The increase in realized gains was driven by exits of portfolio companies.

Unrealized Appreciation or Depreciation on Investments, Credit Facility and 2025 Notes

For the three and nine months ended June 30, 2014, we reported net unrealized (depreciation) appreciation on investments of \$(1.1) million and \$37.4 million, respectively. For the three and nine months ended June 30, 2013, we reported a net unrealized (depreciation) appreciation on investments of \$(20.0) million and \$5.2 million, respectively. As of June 30, 2014 and September 30, 2013, our net unrealized appreciation (depreciation) on investments totaled \$24.0 million and \$(13.3) million, respectively. Net change in unrealized (depreciation) appreciation on investments was a result of the overall variation in the leveraged finance markets as well as the relevant unobservable inputs used in deriving our valuations.

For the three and nine months ended June 30, 2014, we reported net unrealized (appreciation) on our Credit Facility and 2025 Notes of \$(3.4) million and \$(5.4) million, respectively. For the three and nine months ended June 30, 2013, we reported a net unrealized depreciation (appreciation) on our Credit Facility and 2025 Notes of \$0.4 million and \$(0.5) million, respectively. Net change in unrealized appreciation on the Credit Facility and 2025 Notes over the prior year was due to changes in the capital markets.

Net Increase in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled \$31.9 million and \$112.1 million, or \$0.48 and \$1.68 per share, for the three and nine months ended June 30, 2014, respectively. This compares to a net increase in net assets resulting from operations of \$13.8 million and \$69.3 million, or \$0.21 and \$1.05 per share, for the three and nine months ended June 30, 2013, respectively. The increase compared to the prior year was due to realized gains, the continued growth of our portfolio and appreciation of our investments.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our debt and proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

On June 25, 2014, we amended and restated our multi-currency Credit Facility to increase the amount available for borrowing from \$445 million to \$545 million, reduce the interest rate spread above LIBOR from 2.75% to 2.25%, reduce the undrawn commitment fee from 0.50% to 0.375% and extend the maturity date from February 21, 2016 to June 25, 2019. This multi-currency Credit Facility is with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of June 30, 2014 and September 30, 2013, there was \$255.9 million and \$145.5 million (including a temporary draw of \$28.0 million), respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of

2.52% and 3.33%, exclusive of the fee on undrawn commitments of 0.375% and 0.50%, respectively. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

Table of Contents

The documents governing the Credit Facility contain affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintenance of a minimum stockholders' equity of the sum of (1) \$245.2 million plus (2) 25% of the net proceeds from the sale of equity interests in the Company and its subsidiaries after the effective date (other than proceeds from the sale of equity interests by and among the Company and its subsidiaries), (c) maintenance of an asset coverage ratio of not less than 2.0:1.0, (d) maintenance of minimum liquidity standards, (e) limitations on the incurrence of additional indebtedness, (f) limitations on liens, (g) limitations on fundamental corporate changes, (h) limitations on investments, (i) limitations on payments and distributions, (j) limitations on transactions with affiliates, (k) limitations on engaging in business not contemplated by the Company's investment objectives, (l) limitations on the creation or existence of agreements that prohibit liens on properties of the Company and its subsidiaries and (m) limitations on the ability to modify long-term indebtedness. In addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under the Credit Facility (and the incurrence of certain other permitted debt) will be subject to compliance with a borrowing base that will apply different advance rates to different types of assets in the Company's portfolio. The Credit Facility also includes certain customary events of default, including the failure to make timely payments of principal and interest, the occurrence of a change in control and the failure by the Company to materially perform under the operative agreements governing the Credit Facility, which would permit the lenders to accelerate repayment under the Credit Facility.

For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on June 25, 2014 and the Credit Facility agreement filed as Exhibit 99.2 thereto. As of June 30, 2014, we were in compliance with the terms of our Credit Facility.

In January 2013, we issued \$71.3 million in aggregate principal amount of 2025 Notes, after exercise of the over-allotment option, for net proceeds of \$68.8 million after underwriting discounts and offering costs. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. We may redeem the 2025 Notes in whole or in part at any time or from time to time on or after February 1, 2016. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility. Our 2025 Notes trade on the NYSE under the symbol PNTA.

We may raise additional equity or debt capital through both registered offerings off our shelf registration statement and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA, among other sources. Any future additional debt capital we incur, to the extent it is available, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility, SBA debentures or 2025 Notes. Furthermore, our Credit Facility availability depends on various covenants and restrictions. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate or strategic purposes. For the nine months ended June 30, 2014, we did not issue shares of common stock in connection with an equity offering. Any decision to sell shares below the then current net asset value per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below net asset value per share results in immediate dilution to our stockholders' interests in our common stock and a reduction in our net asset value per share.

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150.0 million as of June 30, 2014. We have funded SBIC II with \$37.5 million of equity capital and we received a commitment from

the SBA to allow SBIC II to access \$75.0 million in SBA debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$225.0 million in the aggregate.

As of June 30, 2014 and September 30, 2013, our SBIC Funds had \$225.0 million and \$150.0 million in debt commitments, respectively, and \$150.0 million was drawn for each period. The SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%. Both fees will be amortized over the lives of the loans. Our fixed-rate SBA debentures as of June 30, 2014 and September 30, 2013 were as follows:

Issuance Dates	Maturity		Fixed All-In Coupon Rate		Principal Balance
September 22, 2010	September 1, 2020	3.50%	\$	500,000	
March 29, 2011	March 1, 2021	4.46		44,500,000	
September 21, 2011	September 1, 2021	3.38		105,000,000	
Weighted Average Rate / Total			3.70%	\$	150,000,000

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of June 30, 2014, our SBIC Funds were in compliance with their regulatory requirements.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that our asset coverage ratio is met after such borrowing. As of June 30, 2014 and September 30, 2013, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. In June 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage ratio requirement to exclude the SBA debentures from the calculation. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% which, while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

On June 30, 2014 and September 30, 2013, we had cash and cash equivalents of \$64.4 million and \$58.4 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of \$48.4 million for the nine months ended June 30, 2014, primarily for net purchases of investments. Our financing activities provided cash of \$54.5 million for the same period, primarily from net borrowings under our Credit Facility.

Our operating activities provided cash of \$11.1 million for the nine months ended June 30, 2013, primarily from operating income. Our financing activities used cash of \$2.4 million for the same period, primarily to repay certain amounts outstanding under our Credit Facility.

Table of Contents**Contractual Obligations**

A summary of our significant contractual payment obligations as of June 30, 2014, including borrowings under our various debt facilities and other contractual obligations, is as follows:

	Payments due by period (in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility ⁽¹⁾	\$ 255.9	\$	\$	\$ 255.9	\$
SBA debentures	150.0				150.0
2025 Notes	71.3				71.3
Total debt outstanding ⁽²⁾	477.2			255.9	221.3
Unfunded investments ⁽³⁾	20.4	1.9	8.5	8.4	1.6
Total contractual obligations	\$ 497.6	\$ 1.9	\$ 8.5	\$ 8.4	\$ 1.6

(1) Includes borrowings denominated in British Pounds of £34.0 million, as of June 30, 2014.

(2) The annualized weighted average cost of debt as of June 30, 2014, excluding debt issuance costs, was 3.94% inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility and 3.43% of upfront fees on SBA debentures.

(3) Unfunded debt and equity investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments and/or revolving lines of credit.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2014, PennantPark Investment Advisers serves as our Investment Adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements with us. Our SBIC Funds investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are equal to (1) a base management fee equal to a percentage of the value of our average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2014, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day

operations. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements, which are intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, PennantPark Investment Advisers or PennantPark Investment Administration will be paid an additional amount based on the services provided, which amount will not in any case exceed the amount we receive from the portfolio companies for such services. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. For the three and nine months ended June 30, 2014, the Investment Adviser was reimbursed \$0.6 million and \$2.7 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above. For the three and nine months ended June 30, 2013, the Investment Adviser was reimbursed \$0.5 million and \$2.5 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above.

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.

We, in the ordinary course of business, have guaranteed certain obligations of SPH. The guaranties are only triggered if there were administrative errors in acquiring assets which SPH subsequently sold or securitized. As of June 30, 2014 and September 30, 2013, our maximum guaranty was \$11.3 million and \$13.0 million, respectively. Based on SPH's and the industry's historical loss rates we believe the risk of loss is remote, thus, we have not recorded a liability associated with the guaranties. The current guaranties will decline over time.

Off-Balance-Sheet Arrangements

We currently 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 RIC and to not be subject to corporate-level tax on income, we are required, under Subchapter M of the Code, to distribute annually at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) any net ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may retain such net capital gains or ordinary income to provide us with additional liquidity. As a RIC, we are generally not subject to tax on income and have elected to retain a portion of our calendar year income.

During the three and nine months ended June 30, 2014, we declared to stockholders distributions of \$0.28 and \$0.84 per share, respectively, for total distributions of \$18.6 million and \$55.9 million, respectively. For the same periods in the prior year, we declared distributions of \$0.28 and \$0.84 per share, respectively, for total distributions of \$18.6 million and \$55.8 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes 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 return of capital to

our common stockholders. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year and in our periodic reports filed with the SEC.

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

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a 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 distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage ratio for borrowings applicable to us as a BDC under the 1940 Act and/or due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of RIC status. We cannot assure stockholders that they will receive any distributions at a particular level.

Table of Contents**Item 3. Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of June 30, 2014, our debt portfolio consisted of 39% fixed-rate investments and 61% variable-rate investments (including 53% with a LIBOR or prime floor). The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates.

Assuming that the most recent statement of assets and liabilities was to remain constant, and no actions were taken to alter the interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

Change In Interest Income, Net Of Interest Expense			
Change In Interest Rates	(In Thousands)	Per Share	
Up 1%	\$ (1,052)	\$	(0.02)
Up 2%	\$ 2,797	\$	0.04
Up 3%	\$ 6,646	\$	0.10
Up 4%	\$ 10,494	\$	0.16

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 Consolidated Statement of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations, or net investment income. Accordingly, no assurances can be given that actual results would not differ materially from those shown above.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds as well as our level of leverage. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income or net assets.

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

Item 4. Controls and Procedures

As of the period covered by this Report, 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 Exchange 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 filings with the SEC 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.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Neither we nor our Investment Adviser nor our Administrator 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 1A. Risk Factors

In addition to the other information set forth in this Report, you should consider carefully the factors discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing PennantPark Investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Unless specifically indicated otherwise, the following exhibits are incorporated by reference to exhibits previously filed with the SEC:

- 3.1 Articles of Incorporation (Incorporated by reference to Exhibit 99(a) to the Registrant's Pre-Effective Amendment No. 3 to the

Registration Statement on Form N-2/A (File No. 333-140092), filed on April 5, 2007).
- 3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual

Report on Form 10-K (File No. 814-00736), filed on November 13, 2013).
- 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).
- 10.5 Second Amended and Restated Senior Secured Revolving Credit Agreement, dated as of June 25, 2014, among PennantPark Investment Corporation, the lenders party thereto and SunTrust Bank, as administrative agent for the lenders (Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K (File No. 814-00736), filed on June 30, 2014).
- 11 Computation of Per Share Earnings (included in the notes to the Consolidated 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 November 16, 2011).

* Filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNANTPARK INVESTMENT CORPORATION

Date: August 5, 2014

By: */s/ Arthur H. Penn*
Arthur H. Penn
Chairman of the Board of Directors and Chief Executive Officer

(Principal Executive Officer)

Date: August 5, 2014

By: */s/ Aviv Efrat*
Aviv Efrat
Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)