

PENNANTPARK INVESTMENT CORP  
Form 10-Q  
August 07, 2013  
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, 2013**

**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**  
(State or other jurisdiction of  
incorporation or organization)  
**590 Madison Avenue, 15<sup>th</sup> Floor**  
**New York, N.Y.**  
(Address of principal executive offices)

**20-8250744**  
(I.R.S. Employer  
Identification No.)  
**10022**  
(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 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 7, 2013 was 66,499,327.

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2013**

**TABLE OF CONTENTS**

**PART I. CONSOLIDATED FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements**

Consolidated Statements of Assets and Liabilities as of June 30, 2013 (unaudited) and September 30, 2012 2

Consolidated Statements of Operations for the three and nine months ended June 30, 2013 and 2012 (unaudited) 3

Consolidated Statements of Changes in Net Assets for the nine months ended June 30, 2013 and 2012 (unaudited) 4

Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012 (unaudited) 5

Consolidated Schedules of Investments as of June 30, 2013 (unaudited) and September 30, 2012 6

Notes to Consolidated Financial Statements (unaudited) 15

Report of Independent Registered Public Accounting Firm 28

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** 29

**Item 3. Quantitative and Qualitative Disclosures About Market Risk** 40

**Item 4. Controls and Procedures** 40

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings** 41

**Item 1A. Risk Factors** 41

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** 41

**Item 3. Defaults Upon Senior Securities** 41

**Item 4. Mine Safety Disclosures** 41

**Item 5. Other Information** 41

**Item 6. Exhibits** 42

**SIGNATURES** 43

**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, 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; 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**

	<b>June 30, 2013</b>	
	<b>(unaudited) September 30, 2012</b>	
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value	\$ 919,743,390	\$ 871,892,745
(cost \$888,478,404 and \$871,867,953, respectively)		
Non-controlled, affiliated investments, at fair value	109,229,772	80,955,257
(cost \$127,568,788 and \$72,576,858, respectively)		
Controlled, affiliated investments, at fair value	37,291,710	37,631,708
(cost \$63,124,956 and \$64,167,051, respectively)		
Total of investments, at fair value (cost \$1,079,172,148 and \$1,008,611,862, respectively)	1,066,264,872	990,479,710
Cash equivalents (See Note 8)	16,322,503	7,559,453
Interest receivable	13,175,682	14,928,862
Prepaid expenses and other assets	6,231,236	5,999,506
<b>Total assets</b>	<b>1,101,994,293</b>	<b>1,018,967,531</b>
<b>Liabilities</b>		
Distributions payable	18,606,033	15,824,061
Payable for investments purchased	15,932,290	
Unfunded investments	22,881,667	26,935,270
Credit Facility payable (cost \$114,500,000 and \$145,000,000, respectively) (See Notes 5 and 10)	114,500,000	144,452,500
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)	71,250,000	
Management fee payable (See Note 3)	5,412,460	4,791,913
Performance-based incentive fee payable (See Note 3)	4,413,710	4,206,989
Interest payable on debt	3,194,151	854,725
Accrued other expenses	2,701,325	2,185,026
<b>Total liabilities</b>	<b>408,891,636</b>	<b>349,250,484</b>
<b>Net assets</b>		
Common stock, 66,450,117 and 65,514,503 shares issued and outstanding, respectively.		
Par value \$0.001 per share and 100,000,000 shares authorized.	66,450	65,514
Paid-in capital in excess of par value	754,568,763	744,704,825
(Distributions in excess of) Undistributed net investment income	(3,075,320)	2,804,397

Accumulated net realized loss on investments	(45,549,961)	(60,273,037)
Net unrealized depreciation on investments	(12,907,275)	(18,132,152)
Net unrealized depreciation on debt		547,500
<b>Total net assets</b>	\$ 693,102,657	\$ 669,717,047
<b>Total liabilities and net assets</b>	\$ 1,101,994,293	\$ 1,018,967,531
<b>Net asset value per share</b>	\$ 10.43	\$ 10.22

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Three months ended June 30,</b>		<b>Nine months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Investment income:</b>				
From non-controlled, non-affiliated investments:				
Interest	\$ 26,693,069	\$ 25,860,359	\$ 80,520,256	\$ 74,190,105
Other income	3,941,167	2,628,858	9,184,121	5,584,060
From non-controlled, affiliated investments:				
Interest	2,140,854	458,901	4,471,618	1,581,426
Other income			227,800	
From controlled, affiliated investments:				
Interest	949,583	437,500	3,336,040	1,230,444
<b>Total investment income</b>	<b>33,724,673</b>	<b>29,385,618</b>	<b>97,739,835</b>	<b>82,586,035</b>
<b>Expenses:</b>				
Base management fee (See Note 3)	5,412,461	4,493,917	15,869,172	12,715,349
Performance-based incentive fee (See Note 3)	4,413,711	3,892,819	12,518,209	10,016,789
Interest and expenses on debt (See Note 10)	4,212,450	3,206,771	11,292,224	8,318,513
Administrative services expenses (See Note 3)	1,157,748	1,046,991	3,485,607	2,652,647
Other general and administrative expenses	520,970	820,827	2,000,919	2,561,021
<b>Expenses before taxes and debt issuance costs</b>	<b>15,717,340</b>	<b>13,461,325</b>	<b>45,166,131</b>	<b>36,264,319</b>
Tax expense	32,500	353,697	(82,396)	633,697
Debt issuance costs (See Note 5)	320,000		2,757,500	5,361,319
<b>Total expenses</b>	<b>16,069,840</b>	<b>13,815,022</b>	<b>47,841,235</b>	<b>42,259,335</b>
<b>Net investment income</b>	<b>17,654,833</b>	<b>15,570,596</b>	<b>49,898,600</b>	<b>40,326,700</b>
<b>Realized and unrealized (loss) gain on investments and debt:</b>				
Net realized gain (loss) on investments	15,682,708	1,447,084	14,723,076	(10,504,926)
Net change in unrealized appreciation (depreciation) on:				
Non-controlled, non-affiliated investments				
	(23,484,170)	(16,576,404)	8,805,377	13,958,935
Controlled and non-controlled, affiliated investments				
	3,504,661	2,799,956	(3,580,500)	3,069,531
Debt depreciation (appreciation) (See Notes 5 and 10)				
	427,500	178,500	(547,500)	(1,186,875)
<b>Net change in unrealized appreciation (depreciation)</b>	<b>(19,552,009)</b>	<b>(13,597,948)</b>	<b>4,677,377</b>	<b>15,841,591</b>
Net realized and unrealized (loss) gain from investments and debt	(3,869,301)	(12,150,864)	19,400,453	5,336,665
<b>Net increase in net assets resulting from operations</b>	<b>\$ 13,785,532</b>	<b>\$ 3,419,732</b>	<b>\$ 69,299,053</b>	<b>\$ 45,663,365</b>
Net increase in net assets resulting from operations per common share (See Note 7)				
	\$ 0.21	\$ 0.06	\$ 1.05	\$ 0.88
Net investment income per common share	\$ 0.27	\$ 0.28	\$ 0.76	\$ 0.78





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

	<b>Nine Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Net increase in net assets from operations:</b>		
Net investment income	\$ 49,898,600	\$ 40,326,700
Net realized gain (loss) on investments	14,723,076	(10,504,926)
Net change in unrealized appreciation on investments	5,224,877	17,028,466
Net change in unrealized appreciation on debt	(547,500)	(1,186,875)
<b>Net increase in net assets resulting from operations</b>	<b>69,299,053</b>	<b>45,663,365</b>
<b>Distributions to stockholders:</b>		
Distributions	(55,778,317)	(44,313,916)
<b>Capital share transactions:</b>		
Public offering	7,574,000	109,192,500
Offering costs	(265,090)	(3,979,000)
Reinvestment of dividends	2,555,964	3,441,364
<b>Net increase from capital transactions</b>	<b>9,864,874</b>	<b>108,654,864</b>
<b>Total increase in net assets</b>	<b>23,385,610</b>	<b>110,004,313</b>
<b>Net assets:</b>		
Beginning of period	\$ 669,717,047	\$ 462,657,196
End of period	693,102,657	572,661,509
(Distributions in excess of) Undistributed net investment income, at period end	\$ (3,075,320)	\$ 4,339,635
<b>Capital share activity:</b>		
Shares issued from public offering	700,000	10,350,000
Shares issued from reinvestment of dividends	235,614	327,558

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Nine Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 69,299,053	\$ 45,663,365
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:		
Net change in unrealized appreciation on investments	(5,224,877)	(17,028,466)
Net change in unrealized appreciation on debt	547,500	1,186,875
Net realized (gain) loss on investments	(14,723,076)	10,504,926
Net accretion of discount and amortization of premium	(4,245,224)	(8,093,419)
Purchase of investments	(317,161,225)	(243,803,748)
Payment-in-kind income	(9,651,825)	(7,899,606)
Proceeds from dispositions of investments	271,183,021	173,807,481
Decrease (increase) in interest receivable	1,753,180	(486,923)
Increase in receivables for investments sold		(23,865,806)
(Increase) Decrease in prepaid expenses and other assets	(247,289)	201,119
Increase in payables for investments purchased	15,932,290	11,427,501
(Decrease) in unfunded investments		(19,242,446)
Increase in interest payable on debt	2,339,426	1,643,933
Increase in management fee payable	620,547	484,606
Increase in performance-based incentive fee payable	206,721	118,853
Increase in accrued other expenses	516,299	1,105,689
Net cash provided (used) by operating activities	11,144,521	(74,276,066)
<b>Cash flows from financing activities:</b>		
Public offering	7,574,000	109,192,500
Offering costs	(265,090)	(3,979,000)
Distributions paid, net of dividends reinvested	(50,440,381)	(37,425,938)
Proceeds from 2025 Notes issuance (See Note 10)	71,250,000	
Borrowings under Credit Facility (See Note 10)	850,300,000	805,400,000
Repayments under Credit Facility (See Note 10)	(880,800,000)	(861,200,000)
Net cash (used) provided by financing activities	(2,381,471)	11,987,562
<b>Net increase (decrease) in cash equivalents</b>	<b>8,763,050</b>	<b>(62,288,504)</b>
<b>Cash equivalents, beginning of period</b>	<b>7,559,453</b>	<b>71,604,519</b>
<b>Cash equivalents, end of period</b>	<b>\$ 16,322,503</b>	<b>\$ 9,316,015</b>

**Supplemental disclosure of cash flow information and non-cash financing activity:**

Interest paid	\$ 8,622,437	\$ 5,926,880
Taxes paid	\$ 92,398	\$ 258,550
Dividends reinvested	\$ 2,555,964	\$ 3,441,364
Conversions and non-cash exchanges	\$ 58,615,748	\$

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2013

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>				<b>132.7%<sup>(1),(2)</sup></b>			
<b>First Lien</b>							
<b>Secured</b>							
<b>Debt 43.9%</b>							
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975 <sup>(8)</sup>	24,065,822	\$ 23,110,849	\$ 24,186,151
AKA Diversified Holdings, Inc. (a/k/a Z Wireless Holdings, Inc.)	12/21/2016	Retail	12.50%	L+1,225	14,494,451	14,243,671	14,560,104
			(PIK 1.50%)				
CEVA Group PLC <sup>(5),(10)</sup>	10/01/2016	Cargo Transport	11.63%		7,500,000	7,377,482	7,575,000
Columbus International, Inc. <sup>(5),(10)</sup>	11/20/2014	Communications	11.50%		10,000,000	10,000,000	10,775,000
Good Sam Enterprises, LLC <sup>(5)</sup>	12/01/2016	Consumer Products	11.50%		12,000,000	11,825,237	12,780,000
IDQ Holdings, Inc. <sup>(5)</sup>	03/30/2017	Auto Sector	11.50%		11,500,000	11,316,293	12,592,500
InfuSystem Holdings, Inc.	11/30/2016	Healthcare, Education and Childcare	12.13%	P+625 <sup>(8)</sup>	11,600,000	11,600,000	11,656,976
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 <sup>(8)</sup>	23,996,274	23,817,086	22,556,497
Instant Web, Inc.	08/07/2014	Printing and Publishing	3.57%	L+338	3,000,000	2,164,087	2,107,500
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950 <sup>(8)</sup>	18,168,750	17,865,424	18,168,750
	02/07/2014		2.45%	L+225	9,543,919	9,543,919	7,873,733

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Jacuzzi Brands Corp.		Home and Office Furnishings, Housewares and Durable Consumer Products					
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.50%	P+725 <sup>(8)</sup>	21,389,871	20,852,000	21,069,023
Penton Media, Inc.	08/01/2014	Other Media	6.00%	L+500 <sup>(8)</sup>	37,856,190	35,525,124	36,058,021
			(PIK 2.00%)				
Pre-Paid Legal Services, Inc. Tranche B	12/30/2016	Personal, Food and Miscellaneous Services	11.50%	P+825 <sup>(8)</sup>	40,000,000	38,930,746	40,000,000
Prince Mineral Holding Corp. <sup>(5)</sup>	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,091,906	15,247,500
TRAK Acquisition Corp.	04/30/2018	Business Services	12.00%	L+1,050 <sup>(8)</sup>	34,708,300	34,200,105	34,708,300
Worley Claims Services LLC	07/06/2017	Insurance	12.50%	L+1,100 <sup>(8)</sup>	12,576,865	12,576,865	12,513,980
<b>Total First Lien Secured Debt</b>						299,040,794	304,429,035
<b>Second Lien Secured Debt 31.1%</b>							
American Gilsonite Company <sup>(5)</sup>	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	26,733,500
Brand Energy and Infrastructure Services, Inc.	10/23/2019	Energy / Utilities	11.00%	L+975 <sup>(8)</sup>	42,278,570	41,443,460	43,018,445
Eureka Hunter Pipeline, LLC	08/16/2018	Energy / Utilities	12.50%		45,000,000	44,595,798	46,575,000
Hanley-Wood, LLC	01/15/2019	Other Media	11.68%	L+1,140	5,000,000	4,904,851	5,000,000
Intermediate Transportation 100, L.L.C.	03/01/2017	Cargo Transport	11.00%	L+700 <sup>(8)</sup>	3,360,032	3,360,034	3,360,032
			(PIK 11.00%)				
Jacobs Entertainment, Inc.	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175 <sup>(8)</sup>	38,950,000	38,253,595	39,209,680
Language Line, LLC	12/20/2016	Personal, Food and Miscellaneous Services	10.50%	L+875 <sup>(8)</sup>	16,000,000	15,760,000	15,693,328
Linc USA GP and Linc	10/31/2017	Oil and Gas	12.50%		11,875,000	11,495,398	12,825,000

Energy Finance (USA), Inc. <sup>(5)</sup>							
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+550 <sup>(8)</sup>	2,403,487	2,403,487	2,355,418
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%	P+750 <sup>(8)</sup>	2,429,663	2,429,663	2,356,773
ROC Finance LLC and ROC Finance 1 Corp.	08/31/2018	Hotels, Motels, Inns and Gaming	12.13%	(PIK 11.50%)	16,000,000	15,778,633	18,200,000
<b>Total Second Lien Secured Debt</b>						205,824,919	215,327,176

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

JUNE 30, 2013

(Unaudited)

	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fa
nd Debt/Corporate Notes	47.0%						
	10/02/2017	Electronics	13.75%		19,000,000	\$ 18,606,707	\$
up Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,477,568	
ologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,766,530	
technologies LLC	03/26/2018	Electronics	12.00%		23,454,554	23,043,646	
			(PIK 1.00%)				
, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	12.25%		10,600,000	10,391,877	
	06/01/2016	Electronics	14.75%		25,784,357	25,368,343	
			(PIK 2.75%)				
	03/31/2017	Distribution	13.00%		22,125,859	21,779,255	
			(PIK 2.00%)				
n, LLC	06/30/2017	Distribution	14.00%		17,430,235	17,056,207	
			(PIK 2.00%)				
ding Corp.	06/30/2016	Cargo Transport	14.50%		46,467,059	45,727,544	
			(PIK 2.50%)				
e Group (US) Inc.	05/08/2020	Education	15.00%		7,215,989	6,722,857	
			(PIK 15.00%)				
Products, Inc.	01/19/2019	Chemicals, Plastics and Rubber	12.50%		30,000,000	30,000,000	
Products, Inc. (9)	01/11/2014	Chemicals, Plastics and Rubber			5,000,000	4,825,000	
(f/k/a MailSouth, Inc.)	06/15/2017	Printing and Publishing	14.50% (7)		15,000,000	14,679,873	
ional Energy Mezzanine Funding Corp.	01/15/2018	Oil and Gas	14.00%		36,687,457	36,021,019	
			(PIK 4.00%)				
rnational, Inc.	06/27/2019	Printing and Publishing	12.00%		39,892,933	39,125,811	

<b>Financed Debt/Corporate Notes</b>				336,592,237
<b>Equity/Partnership Interests 1.3%<sup>(6)</sup></b>				
Inc.	Healthcare, Education and Childcare	6.00%	211	500,000
ine, LLC	Other Media		7,505	318,896
Technologies Holdings Corp., Series A (Technologies, LLC)	Financial Services		949	949,050
Investment Holdings, LLC (Health Solutions, Inc.)	Healthcare, Education and Childcare	8.00%	76,357	765,307
Investment Holdings, LLC <sup>(9)</sup> (Health Solutions, Inc.)	Healthcare, Education and Childcare		38,179	382,654
Technologies Holdings, LLC (Technologies LLC)	Electronics	8.00%	2,375	2,375,000
gies Holdings, LLC	Business Services	9.00%	326,215	326,215
nc. (Hanley-Wood, LLC)	Other Media	8.00%	3,591	24,177
L.P., Series A	Insurance		686	685,820
L.P., Series B	Insurance	6.50%	1,312	1,312,006
gs, Inc.	Personal Transportation	8.00%	1,824,167	1,824,168
<b>Red Equity/Partnership Interests</b>				9,463,293

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Table of Contents

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

JUNE 30, 2013

(Unaudited)

Name	Maturity	Industry	Current Coupon <sup>(4)</sup>	Basis Point Spread Above Index	Par / Shares	Cost	Fair Value
<b>Investment in Equity/Warrants/Partnership Interests 9.4%</b>							
... LLC, Class A Units <sup>(12)</sup>		Electronics			1,998	\$ 2,000,000	\$ 1,500,000
... Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		2,500,000
... Technologies Holding Corp., Class A, ... s Technologies, LLC)		Financial Services			1	950	
... Games, LLC		Broadcasting and Entertainment			1,333,330	3,000,000	
... s) Prime Investment Holdings, LLC (Galls, LLC)		Distribution			1,505,000	1,505,000	2,100,000
... o) Investment Holdings, LLC ... ve Health Solutions, Inc.)		Healthcare, Education and Childcare			23,416	234,693	300,000
... o) Investment Holdings, LLC <sup>(9)</sup> ... ve Health Solutions, Inc.)		Healthcare, Education and Childcare			11,708	117,346	100,000
... gint Technologies Holdings, LLC ... gint Technologies LLC)		Electronics			2,375		
... nologies Holdings, LLC ... nco, Inc. (Hanley-Wood, LLC)		Business Services Other Media			5,556 386,770	1,918,346 2,697,834	7,000,000 3,400,000
... Holdings, LLC, Class A ... n Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,236,831	11,300,000
... Holdings, LLC, Class D ... n Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,028,807	1,000,000
... g Care Group (US) Inc. (Warrants)	04/27/2020	Education			6,649	779,920	3,500,000
... n Hunter Resources Corporation ... Hunter Pipeline, LLC)		Oil and Gas			1,221,932	3,239,999	4,400,000
... n Hunter Resources Corporation (Warrants) ... Hunter Pipeline, LLC)	10/14/2013	Oil and Gas			122,193	105,697	
... an JF Holdings Corp. ... isition, LLC)		Distribution			1,850	1,850,294	1,800,000
... an PPL Holdings, Inc. ... d Legal Services, Inc.)		Personal, Food and Miscellaneous Services			3,000	3,000,000	5,300,000
... n Acquisition Corp.		Healthcare, Education and Childcare			20,000	2,000,000	2,800,000

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

oldCo, LLC, Class A k Media Group, LLC)		Other Media	4,325	1,306,167	2,1
oldCo, LLC, Class B k Media Group, LLC)		Other Media	531		2
yd Holdings Corp. xible Products, Inc.)		Chemical, Plastic and Rubber	300,000	3,000,000	4,8
Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	6
rtation 100 Holdco, L.L.C. <sup>(13)</sup> mediate Transportation 100, L.L.C.)		Cargo Transport	137,923	2,111,588	3
ings, L.P.		Insurance	2	9,568	
n Parent Holdings, Inc. n International, Inc.)		Printing and Publishing	211,797	2,325,555	2,4
holdings Inc.		Personal Transportation	9,166	9,166	
holdings, Inc. (Veritext Corp.)		Business Services	35,526	4,050,000	6,3
<b>Common Equity/Warrants/Partnership Interests</b>				<b>37,557,161</b>	<b>64,8</b>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>				<b>888,478,404</b>	<b>919,7</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

JUNE 30, 2013

(Unaudited)

	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost
<b>Controlled, Affiliated Portfolio Companies 15.7%<sup>(1),(2)</sup></b>						
<b>Debt 1.1%</b>	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625 <sup>(8)</sup>	8,000,000	\$ 8,000,000
<b>Corporate Notes 8.6%</b>						
	11/05/2019	Consumer Products	12.00%		11,095,363	11,095,363
			(PIK 12.00%)			
Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% <sup>(7)</sup>		7,851,005	7,740,000
	10/02/2017	Auto Sector	12.50%		24,000,000	23,550,000
	10/02/2013	Auto Sector			16,000,000	15,640,000
<b>Debt/Corporate Notes</b>						<b>58,020,000</b>
<b>Equity 5.3%<sup>(6)</sup></b>						
Inc.		Aerospace and Defense			53,071	20,050,000
<b>Partnership Interest 5.3%<sup>(6)</sup></b>						
		Consumer Products			104,719	21,490,000
(Warrants)	11/05/2022	Consumer Products			15,486	15,486,000
Inc.		Environmental Services			141,888	11,830,000
Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000
Holdings, Inc.		Auto Sector			16,800	4,200,000
Inc.					53,071	20,050,000

Aerospace and  
Defense

<b>Partnership Interest</b>					41,48
<b>Non-Controlled, Affiliated Portfolio Companies</b>					127,56
<b>Controlled, Affiliated Portfolio Companies 5.4%</b> <sup>(1),(2)</sup>					
<b>1.6%</b>					
	06/30/2020	Business Services	14.00%	8,850,000	8,850,000
<sup>(9)</sup>	12/31/2015	Oil and Gas		1,916,667	1,770,000
<b>Total Debt</b>					10,620,000
<b>Debt 2.3%</b>					
	12/31/2015	Oil and Gas	15.00%	16,002,227	13,930,000
			(PIK 15.00%)		
<b>Corporate Notes 0.3%</b>					
	06/30/2020	Business Services	14.00%	2,150,000	2,150,000
		Business Services	14.00%	2,000	2,000
International Holdings, Inc.		Oil and Gas	8.00%	376,988	34,420,000
(C.)					
					36,420,000
		Business Services		100	
<b>Controlled, Affiliated Portfolio Companies</b>					63,120,000
<b>3%</b>					1,079,170,000
Shares, TempCash, Institutional Shares					3,290,000
Debt					13,020,000
					16,320,000
<b>Cash Equivalents 156.2%</b>					\$ 1,095,490,000
<b>Other Assets (56.2%)</b>					

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

**JUNE 30, 2013**

**(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.
- (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 in-kind or PIK.
- (8) Coupon is subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investment). 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, LLC, a consolidated subsidiary.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2012

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 130.3%<sup>(1),(2)</sup></b>							
<b>First Lien Secured Debt 41.7%</b>							
Cell Business	06/21/2017	Communications	11.25%	L+975 <sup>(8)</sup>	14,906,250	\$ 14,332,682	\$ 14,906,250
aviation Services							
LC							
American	03/23/2015	Healthcare,	14.00%	L+1,000 <sup>(8)</sup>	17,811,828	17,441,366	17,811,828
urgical		Education and					
oldings, Inc.		Childcare					
and Energy	02/07/2014	Energy/Utilities	3.68%	L+325	2,000,000	1,757,029	1,973,330
d Infrastructure							
ervices, Inc.							
EVA Group	10/01/2016	Cargo Transport	11.63%		7,500,000	7,355,237	7,687,500
LC <sup>(5),(10)</sup>							
EVA Group	04/01/2018	Cargo Transport	11.50%		1,000,000	990,089	880,000
LC <sup>(5),(10)</sup>							
olumbus	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,100,000
ternational,							
c. <sup>(5), (10)</sup>							
ood Sam	12/01/2016	Consumer Products	11.50%		12,000,000	11,795,443	12,720,000
terprises,							
LC <sup>(5)</sup>							
anley-Wood,	01/13/2017	Other Media	8.00%	L+650 <sup>(8)</sup>	1,752,896	1,752,896	1,752,896
L.C.							
Q Holdings,	04/01/2017	Auto Sector	11.50%		11,500,000	11,288,165	12,218,750
c. <sup>(5)</sup>							
stant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 <sup>(8)</sup>	24,115,645	23,829,738	23,802,140
eractive	10/04/2016	Healthcare,	11.50%	L+950 <sup>(8)</sup>	18,525,000	18,165,492	18,571,310
health Solutions,		Education and Childcare					
c.	02/07/2014		2.28%	L+225	9,598,649	9,598,649	6,371,100

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Lucuzzi Brands Corp.		Home and Office Furnishings, Housewares and Durable Consumer Products					
2 Pure Solutions NoCal, P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	L+775 <sup>(8)</sup>	18,952,500	18,216,865	19,236,780
Admon Pharmaceuticals, LLC	10/31/2012	Healthcare, Education and Childcare	15.00%	L+1,300 <sup>(8)</sup>	4,931,494	4,992,740	5,110,400
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,640,832	25,857,230
Anton Media, Inc.	08/01/2014	Other Media	5.00%	L+400 <sup>(8)</sup>	37,775,294	33,971,917	30,503,550
			(PIK 1.00%)				
Fee-Paid Legal Services, Inc., Branch A	12/30/2016	Personal, Food and Miscellaneous Services	7.50%	L+600 <sup>(8)</sup>	1,552,846	1,533,687	1,556,720
Fee-Paid Legal Services, Inc., Branch B	12/30/2016	Personal, Food and Miscellaneous Services	11.00%	L+950 <sup>(8)</sup>	35,000,000	34,118,800	35,350,000
Questex Media Group LLC <sup>(9)</sup>	12/16/2012	Other Media	1.36%		133,603	133,603	133,603
Kelec Global Inc. (First Out)	01/29/2018	Telecommunications	9.00%	L+750 <sup>(8)</sup>	850,000	838,369	850,000
Kelec Global Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200 <sup>(8)</sup>	10,625,000	10,338,450	10,848,120
Corley Claims Services, LLC	07/06/2017	Insurance	12.50%	L+1,100 <sup>(8)</sup>	14,934,000	14,934,000	14,859,330
Monkers Racing Corp. <sup>(5)</sup>	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,401,515	4,860,000
<b>Total First Lien Secured Debt</b>						277,427,564	278,960,880
<b>Second Lien Secured Debt 25.3%</b>							
American Alsonite Company <sup>(5)</sup>	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	26,098,500
Grand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.33%	L+600	13,600,000	13,378,432	12,729,600
Grand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.36%	L+700	12,000,000	11,866,485	11,232,000
DirectBuy Holdings, Inc. <sup>(5)</sup>	02/01/2017	Consumer Products	12.00%		34,000,000	31,964,822	10,880,000
Preka Hunter Pipeline, LLC	08/16/2018	Energy/Utilities	12.50%		45,000,000	44,543,688	45,000,000



Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00%	L+700 <sup>(8)</sup>	3,184,219	3,184,222	2,292,640
Paradigm Management Services, LLC	07/31/2017	Healthcare, Education and Childcare	12.50%	L+1,100 <sup>(8)</sup>	20,512,821	20,059,979	20,512,821
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 <sup>(8)</sup>	2,752,666	2,752,666	2,584,750
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%	L+850 <sup>(8)</sup>	2,230,508	2,230,508	2,002,990
Sealogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,062,500
ROC Finance LLC and ROC Finance 1 Corp.	09/01/2018	Hotels, Motels, Inns and Gaming	12.13%		16,000,000	15,752,822	18,560,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.22%	L+600	7,811,488	7,511,344	7,411,140
<b>Total Second Lien Secured Debt</b>						188,644,968	169,366,950

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****SEPTEMBER 30, 2012**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index (4)</b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value (3)</b>
<b>Subordinated Debt/Corporate Notes 52.4%</b>							
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	\$ 18,563,943	\$ 19,000,000
Affinion Group Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,172,451	24,175,360
Alegeus Technologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,754,461	8,930,000
Convergint Technologies LLC	03/26/2018	Electronics	12.00%		23,277,586	22,812,086	22,812,034
Diversitech Corporation	01/29/2017	Manufacturing/ Basic Industry	13.50% <sup>(7)</sup>		11,000,000	10,836,901	11,275,000
Escort, Inc.	06/01/2016	Electronics	14.75%		25,254,035	24,751,548	25,254,035
Galls, LLC; Quartermaster Inc.	03/31/2017	Distribution	13.00%		21,797,263	21,399,764	21,906,249
JF Acquisition, LLC	06/30/2017	Distribution	14.00%		17,171,374	16,748,220	17,377,430
Last Mile Funding Corp.	06/30/2016	Cargo Transport	14.50%		45,597,139	44,677,474	45,095,570
Learning Care Group (US) Inc.	06/30/2016	Education	15.00%		5,277,718	4,696,436	4,815,918
LTI Flexible Products, Inc.	01/19/2019	Chemical, Plastic and Rubber	12.50%		30,000,000	30,000,000	30,000,000
LTI Flexible Products, Inc. <sup>(9)</sup>	01/11/2014	Chemical, Plastic and Rubber			5,000,000	4,825,000	5,000,000
MailSouth, Inc.	06/15/2017	Printing and Publishing	14.50%		15,000,000	14,632,413	15,210,000
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	15.02%		17,123,218	16,783,033	17,123,218

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

			(PIK 3.02%)			
Prince Mineral Holdings Corp.	12/03/2016	Mining, Steel, Iron and Non-Precious Metals	13.50%	26,696,517	26,263,685	26,696,517
			(PIK 2.00%)			
Realogy Corp.	04/15/2018	Buildings and Real Estate	11.00%	10,000,000	9,247,298	9,400,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% <sup>(7)</sup>	12,020,950	11,708,199	12,020,950
TrustHouse Services Group, Inc.	06/03/2019	Beverage, Food, and Tobacco	14.25%	14,778,578	14,527,411	14,778,578
			(PIK 2.25%)			
TrustHouse Services Group, Inc. <sup>(9)</sup>	06/02/2014	Beverage, Food, and Tobacco		4,000,000	3,920,000	4,000,000
Veritext Corp.	12/31/2015	Business Services	13.00%	16,200,000	15,916,579	16,200,000

**Total Subordinated Debt/Corporate Notes**

355,236,902 351,070,859

**Preferred Equity/Partnership Interests 1.7%<sup>(6)</sup>**

AH Holdings, Inc. (American Surgical Holdings, Inc.)		Healthcare, Education and Childcare	6.00%	211	500,000	624,081
AHC Mezzanine, LLC		Other Media		7,505	318,896	
Alegeus Technologies Holding Corp., Series A (Alegeus Technologies, LLC)		Financial Services		949	949,050	1,031,820
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare	8.00%	76,357	765,307	881,885
CI (IHS) Investment Holdings, LLC <sup>(9)</sup> (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare		38,179	382,654	
Convergint Technologies Holdings, LLC		Electronics		2,375	2,375,000	2,375,000
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media	8.00%	3,591	24,177	27,916
PAS Tech Holdings, Inc., Series A-1 (PAS Technologies,		Aerospace and Defense	8.00%	20,000	1,980,000	823,710

Inc.)					
TrustHouse Services Holdings, LLC	Beverage, Food, and Tobacco	12.00%	1,099	984,344	1,111,742
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)	Insurance		686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)	Insurance	6.50%	1,312	1,312,006	1,666,679
Verde Parent Holdings, Inc.	Personal Transportation	8.00%	1,824,167	1,824,167	1,949,629
<b>Total Preferred Equity/Partnership Interests</b>				12,101,421	11,178,282

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****SEPTEMBER 30, 2012**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index (4)</b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value (3)</b>
<b>Common Equity/Warrants/Partnership Interests 9.2%</b>							
Acentia, LLC, Class A Units <sup>(12)</sup>		Electronics			1,998	\$ 2,000,000	\$ 1,737,396
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		2,063,780
(American Surgical Holdings, Inc.)							
Alegeus Technologies Holding Corp., Class A (Alegeus Technologies, LLC)		Financial Services			1	950	1,033
Autumn Games, LLC		Broadcasting and Entertainment			1,333,330	3,000,000	
CI (Galls) Prime Investment Holdings, LLC <sup>(11)</sup> (Galls, LLC; Quartermaster Inc.)		Distribution			1,505,000	1,505,000	1,680,720
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			23,416	234,693	270,457
CI (IHS) Investment Holdings, LLC <sup>(9)</sup> (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare			11,708	117,346	
Convergint Technologies Holdings, LLC (Convergint Technologies) LLC		Electronics			2,375		
CT Technologies Holdings, LLC		Business Services			5,556	1,904,033	6,665,183
DirectBuy Investors, L.P.		Consumer Products			30,000	1,350,000	
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media			348,912	2,443,050	2,642,438
Kadmon Holdings, LLC, Class A (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,236,832	12,013,688
Kadmon Holdings, LLC, Class D (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Education			1,267	779,920	
Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)		Oil and Gas			1,221,932	3,239,999	5,425,378
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	10/14/2013	Oil and Gas			122,193	105,697	31,778
MidOcean JF Holdings Corp. (JF Acquisition, LLC)		Distribution			1,700	1,700,000	1,641,575
MidOcean PPL Holdings, Inc. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services			3,000	3,000,000	4,377,360
Paradigm Acquisition Corp. (Paradigm Management Services, LLC)		Healthcare, Education and Childcare			20,000	2,000,000	2,124,491
PAS Tech Holdings, Inc. (PAS Technologies, Inc.)		Aerospace and Defense			20,000	20,000	
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,166	1,404,661
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		172,457
SPG Boyd Holdings Corp. (LTI Flexible Products, Inc.)		Chemical, Plastic and Rubber			300,000	3,000,000	3,000,000
Titan Private Holdings I, LLC Class A (Tekelec Global, Inc.)		Telecommunications			2,276,847	2,274,883	6,182,426
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	1,197,412
Transportation 100 Holdco, L.L.C. <sup>(13)</sup> (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,111,588	
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,567	713,718

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Verde Parent Holdings, Inc.	Personal Transportation	9,166	9,167	
VText Holdings, Inc. (Veritext Corp.)	Business Services	35,526	4,050,000	6,941,000
<b>Total Common Equity/Warrants/ Partnership Interests</b>			38,457,098	61,315,758
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>			871,867,953	871,892,745

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****SEPTEMBER 30, 2012**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value
<b>Investments in Non-Controlled, Affiliated Portfolio Companies</b>			<b>12.0%</b> <sup>(1),(2)</sup>				
<b>Secured</b>							
<b>Senior</b>							
<b>Performance, Inc. 1.1%</b>							
Performance, Inc.	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625 <sup>(8)</sup>	8,000,000	\$ 8,000,000	\$ 7,672,000
<b>Subordinated</b>							
<b>Corporate Notes 7.1%</b>							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% <sup>(7)</sup>		7,567,234	7,435,314	7,453,000
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%		24,000,000	23,495,700	24,000,000
Service Champ, Inc. <sup>(9)</sup>	10/02/2013	Auto Sector			16,000,000	15,640,000	16,000,000
						46,571,014	47,453,000
<b>Common Equity/Partnership Interest 3.8%</b> <sup>(6)</sup>							
Service Solutions, Inc.		Environmental Services			125,106	10,055,844	18,425,000
Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000	2,902,000
Service Champ Holdings, Inc. (Service Champ, Inc.)		Auto Sector			16,800	4,200,000	4,501,000
						18,005,844	25,829,000

<b>Investments in Non-Controlled, Affiliated Portfolio Companies</b>				72,576,858	80,955,	
<b>Investments in Controlled, Affiliated Portfolio Companies 5.6%</b> <sup>(1),(2)</sup>						
<b>Lien Secured 1.9%</b>						
PenPark Holdings, Inc.	06/30/2020	Business Services	14.00%	10,800,000	10,800,000	10,800,
Support Services, Inc.	12/31/2015	Oil and Gas		743,187	668,632	743,
Support Services, Inc.	12/31/2015	Oil and Gas		1,173,479	1,068,059	1,173,
<b>First Lien Secured</b>					12,536,691	12,716,
<b>Second Lien Secured 2.1%</b>						
Support Services, Inc.	12/31/2015	Oil and Gas	15.00%	14,300,282	11,809,647	14,300,
				(PIK 15.00)%		
<b>Subordinated Corporate Notes 0.3%</b>						
PenPark Holdings, Inc.	06/30/2020	Business Services	14.00%	2,700,000	2,700,000	2,158,
<b>Preferred Equity 1.3%</b>						
PenPark Holdings, Inc.		Business Services	14.00%	2,000	2,000,000	216,
Universal Pegasus		Oil and Gas	8.00%	411,988	35,120,613	8,239,
National Holdings, Inc.						
<b>Preferred Equity</b>					37,120,613	8,456,
<b>Common Equity 0.0%</b> <sup>(6)</sup>						
PenPark Holdings, Inc.		Business Services		100	100	
<b>Investments in Controlled, Related Portfolio Companies</b>					64,167,051	37,631,
<b>Investments 147.9%</b>					1,008,611,862	990,479,
<b>Equivalents 1.1%</b>					7,559,453	7,559,
<b>Investments and Cash Equivalents 149.0%</b>					\$ 1,016,171,315	\$ 998,039,
<b>Liabilities in Excess of Other Assets (49.0%)</b>						(328,322,
<b>Assets 100.0%</b>						\$ 669,717,

(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.
  - (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, LLC, a consolidated subsidiary.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**(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.

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 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. We may reclassify 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. Changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ.

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***

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

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, 2013**

**(Unaudited)**

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 and responds 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.

***(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 and our Credit Facility during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

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 and we then accrete or amortize such amounts 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.

---

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2013**

**(Unaudited)**

***(c) Income Taxes***

We have complied with the requirements of Subchapter M of the Code and expect to be subject to tax 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 as a RIC, for the three months ended June 30, 2013 we elected to retain a portion of our calendar year income and incurred an excise tax of less than \$0.1 million and for the nine months ended June 30, 2013 we incurred an excise tax of \$(0.1) million. For the three and nine months ended June 30, 2012 we incurred an excise tax of approximately \$0.4 million and \$0.6 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 2009 remain subject to examination by the Internal Revenue Service and the state department of revenue.

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) Dividends, Distributions and Capital Transactions***

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid, if any, as a dividend or distribution is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually. The tax attributes for distributions will generally include ordinary income and capital gains but may also include qualified dividends and/or 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) Consolidation***

As permitted under Regulation S-X and as explained by ASC 946-810-45, Financial Services Investment Companies Consolidation, 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.

**3. AGREEMENTS**

The Investment Management Agreement with the Investment Adviser was re-approved by our board of directors, including a majority of our independent directors, in February 2013. 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

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

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.

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****JUNE 30, 2013****(Unaudited)**

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets (net of U.S. Treasury Bills and/or 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, 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, 2013, the Investment Adviser earned a base management fee of \$5.4 million and \$15.9 million, respectively, from us. For the three and nine months ended June 30, 2012, the Investment Adviser earned a base management fee of \$4.5 million and \$12.7 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, distribution income and any other income, including any other fees other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus 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, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, 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, 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. For the three and nine months ended June 30, 2012, the Investment Adviser earned an incentive fee of \$3.9 million and \$10.0 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 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees from inception. For the three and nine months ended June 30, 2013 and 2012, the Investment Adviser did not earn an incentive fee on capital gains as calculated under the Investment Management Agreement.

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 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 aggregate 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



Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

appreciation will be realized in the future. For the three and nine months ended June 30, 2013 and 2012, the Investment Adviser did not earn a incentive fee on capital gains as calculated under GAAP.

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****JUNE 30, 2013****(Unaudited)**

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our independent directors in February 2013. 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, 2013, the Investment Adviser and Administrator, collectively, were reimbursed \$0.5 million and \$2.5 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for the services described above. For the three and nine months ended June 30, 2012, the Investment Adviser and Administrator, collectively, were reimbursed \$0.6 million and \$3.0 million, respectively, from us, including expenses incurred by the Investment Advisor on behalf of the Administrator, for the services described above.

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, 2013, PennantPark Investment was reimbursed \$0.1 million and \$0.3 million, respectively, for the services described above. For the three and nine months ended June 30, 2012, PennantPark Investment was reimbursed \$0.1 million and \$0.6 million, respectively, for the services described above.

**4. INVESTMENTS**

Purchases of long-term investments, including PIK, for the three and nine months ended June 30, 2013 totaled \$76.6 million and \$326.8 million, respectively. For the same periods in the prior year, purchases of investments including PIK totaled \$91.7 million and \$251.7 million, respectively. Sales and repayments of long-term investments for the three and nine months ended June 30, 2013 totaled \$117.8 million and \$271.2 million, respectively. For the same periods in the prior year, sales and repayments of long-term investments totaled \$55.3 million and \$173.8 million, respectively.

Investments and cash equivalents consisted of the following:

	June 30, 2013		September 30, 2012	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 309,664,846	\$ 315,495,501	\$ 289,964,255	\$ 291,677,553
Second lien	227,755,111	239,273,403	208,454,615	191,339,241
Subordinated debt / corporate notes	396,770,539	387,435,694	404,507,916	400,682,637
Preferred equity	65,943,245	22,733,177	49,222,034	19,634,989
Common equity	79,038,407	101,327,097	56,463,042	87,145,290
Total investments	1,079,172,148	1,066,264,872	1,008,611,862	990,479,710

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Cash equivalents	16,322,503	16,322,503	7,559,453	7,559,453
Total investments and cash equivalents	\$ 1,095,494,651	\$ 1,082,587,375	\$ 1,016,171,315	\$ 998,039,163

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2013**

**(Unaudited)**

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:

<b>Industry Classification</b>	<b>June 30, 2013</b>	<b>September 30, 2012</b>
Energy/Utilities	8%	7%
Printing and Publishing	8	4
Electronics	7	7
Oil and Gas	7	3
Personal, Food and Miscellaneous Services	7	4
Auto Sector	6	6
Business Services	6	6
Chemical, Plastic and Rubber	6	5
Cargo Transport	5	6
Healthcare, Education and Childcare	5	8
Hotels, Motels, Inns and Gaming	5	2
Other Media	5	4
Consumer Products	4	5
Distribution	4	4
Communications	3	3
Diversified Natural Resources, Precious Metals and Minerals	3	3
Environmental Services	2	2
Leisure, Amusement, Motion Pictures, Entertainment	2	2
Education	1	3
Mining, Steel, Iron and Non-Precious Metals	1	3
Aerospace and Defense		2
Beverage, Food and Tobacco		2
Buildings and Real Estate		2
Financial Services		2
Other	5	5
Total	100%	100%

**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.

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2013**

**(Unaudited)**

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.

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. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, 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, 2013 our ability to observe valuation inputs resulted in a reclassification of an investment from Level 3 to 2 with no other reclassification between levels. During the nine months ended June 30, 2012 our ability to observe valuation inputs resulted in no reclassification of assets between levels.

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. See Note 2.

In accordance with Accounting Standards Update No. 2011-04 Fair Value Measurement: Amendment to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, and 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, have no corroborating evidence and may be the result of consensus pricing. We do not adjust the bids.

The remainder of our portfolio, including our long-term Credit Facility, classified as Level 3 was 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 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

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

such an asset. 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, 2013**

**(Unaudited)**

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

<b>Asset Category</b>	<b>Fair Value at June 30, 2013</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>
First lien, second lien, subordinated debt/corporate notes	\$ 334,903,302	Market Comparable	Broker/Dealer bid quotes	N/A
First lien, second lien, subordinated debt/corporate notes	565,970,262	Market Comparable	Market Yield	8.0% - 22.7% (13.5%)
Preferred and common equity	119,600,222	Enterprise Market Value	EBITDA multiple	6.0X - 15.0X (8.6X)
Total Level 3 investments	\$ 1,020,473,786			
Long-Term Credit Facility	\$ 103,500,000	Market Comparable	Market Yield	3.6%

<b>Asset Category</b>	<b>Fair Value at September 30, 2012</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>
First lien, second lien, subordinated debt/corporate notes	\$ 258,617,082	Market Comparable	Broker/Dealer bid quotes	1 - 5
First lien, second lien, subordinated debt/corporate notes	589,806,989	Market Comparable	Market Yield	8.4% - 19.0% (14.1%)
Preferred and common equity	101,323,123	Enterprise Market Value	EBITDA multiple	4.3x - 15.5x (8.5x)
Total Level 3 investments	\$ 949,747,194			



Long-Term Credit Facility	\$ 108,952,500	Market Comparable	Discount rate	3.5%
---------------------------	----------------	-------------------	---------------	------

Our 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, 2013		
		Level 1	Level 2	Level 3
Loan and debt investments	\$ 942,204,598	\$	\$ 41,331,034	\$ 900,873,564
Equity investments	124,060,274	4,460,052		119,600,222
<b>Total investments</b>	<b>1,066,264,872</b>	<b>4,460,052</b>	<b>41,331,034</b>	<b>1,020,473,786</b>
Cash equivalents	16,322,503	16,322,503		
<b>Total investments and cash equivalents</b>	<b>\$ 1,082,587,375</b>	<b>\$ 20,782,555</b>	<b>\$ 41,331,034</b>	<b>\$ 1,020,473,786</b>
Long-Term Credit Facility	\$ 103,500,000	\$	\$	\$ 103,500,000
2025 Notes	71,250,000	71,250,000		
<b>Total debt</b>	<b>\$ 174,750,000</b>	<b>\$ 71,250,000</b>	<b>\$</b>	<b>\$ 103,500,000</b>

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2013**

**(Unaudited)**

<b>Description</b>	<b>Fair Value</b>	<b>Fair Value at September 30, 2012</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loan and debt investments	\$ 883,699,431	\$	\$ 35,275,360	\$ 848,424,071
Equity investments	106,780,279	5,425,378	31,778	101,323,123
<b>Total investments</b>	<b>990,479,710</b>	<b>5,425,378</b>	<b>35,307,138</b>	<b>949,747,194</b>
Cash equivalents	7,559,453	7,559,453		
<b>Total investments and cash equivalents</b>	<b>\$ 998,039,163</b>	<b>\$ 12,984,831</b>	<b>\$ 35,307,138</b>	<b>\$ 949,747,194</b>
Long-Term Credit Facility	\$ 108,952,500	\$	\$	\$ 108,952,500

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

<b>Description</b>	<b>For the nine months ended June 30, 2013</b>		
	<b>Loan and debt investments</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning Balance, September 30, 2012	\$ 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 and non-cash exchanges	(294,037,878)	(10,606,534)	(304,644,412)
Transfers in or out of Level 3	(12,840,000)		(12,840,000)
<b>Ending Balance, June 30, 2013</b>	<b>\$ 900,873,564</b>	<b>\$ 119,600,222</b>	<b>\$ 1,020,473,786</b>

Net change in unrealized appreciation (depreciation) reported within the net change in unrealized appreciation 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
---	---------------	-----------------	---------------

<b>Description</b>	<b>For the nine months ended June 30, 2012</b>		
	<b>Loan and debt investments</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning Balance, September 30, 2011	\$ 732,694,451	\$ 52,353,328	\$ 785,047,779
Realized (losses) gains	(2,334,276)	1,871,266	(463,010)
Unrealized appreciation	(7,513,982)	12,436,050	4,922,068
Purchases, PIK and net discount accretion	242,660,994	25,261,207	267,922,201
Sales / repayments	(166,805,784)	(5,398,142)	(172,203,926)
Exchanges			
<b>Transfers in or out of Level 3</b>			
Ending Balance, June 30, 2012	\$ 798,701,403	\$ 86,523,709	\$ 885,225,112
Net change in unrealized (depreciation) appreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date	\$ (6,124,283)	\$ 14,280,779	\$ 8,156,496

Table of Contents

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2013**

**(Unaudited)**

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

<b>Credit Facility</b>	<b>Carrying/Fair Value</b>	
	<b>For the nine months ended,</b>	
	<b>June 30, 2013</b>	<b>June 30, 2012</b>
Beginning Balance, September 30, 2012 (Cost \$109,500,000 and \$240,900,000, respectively)	\$ 108,952,500	\$ 238,792,125
Total unrealized appreciation included in earnings	547,500	1,186,875
Borrowings <sup>(1)</sup>	532,800,000	499,500,000
Repayments <sup>(1)</sup>	(538,800,000)	(556,200,000)
Transfers in and/or out of Level 3		
Ending Balance, June 30, 2013 (Cost \$103,500,000 and \$185,100,000, respectively)	\$ 103,500,000	\$ 183,279,000

<sup>(1)</sup> Excludes temporary draws.

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 \$2.8 million relating to debt issuance costs during the nine months ended June 30, 2013 relating to our 2025 Notes and an expansion of the size of our Credit Facility through its accordion feature. 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 on its earnings. 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 recorded in the 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, 2013, our Credit Facility and 2025 Notes had a combined net change in unrealized depreciation (appreciation) of \$0.4 million and \$(0.5) million, respectively. For the three and nine months ended June 30, 2012, our Credit Facility had a net change in unrealized depreciation (appreciation) of \$0.2 million and \$(1.2) million, respectively. As of June 30, 2013 and September 30, 2012, combined net unrealized (appreciation) depreciation on our Credit Facility and 2025 Notes

totaled zero and \$0.5 million, respectively. PennantPark Investment uses a nationally recognized independent valuation service to measure the fair value of its Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the New York Stock Exchange, or the NYSE, and PennantPark Investment uses the closing quote on the exchange to measure their fair value.

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****JUNE 30, 2013****(Unaudited)****6. TRANSACTIONS WITH AFFILIATED COMPANIES**

An affiliated company is a company in which we have ownership of 5% or more of its voting securities. A controlled affiliate is a company in which we own more than 25% of its voting securities. Transactions related to our investments with both controlled and non-controlled affiliates for the nine months ended June 30, 2013 were as follows:

Name of Investment	Fair Value at September 30, 2012	Purchases of / Advances to Affiliates	Sale of / Distributions from Affiliates	Income Received	Fair Value at June 30, 2013	Capital Gains / (Losses)
<b>Controlled Affiliates</b>						
SuttonPark Holdings, Inc.	\$ 13,175,000	\$ 3,500,000	\$ (6,000,000)	\$ 1,401,458	\$ 13,000,001	\$
UP Support Services, Inc.	24,456,708	1,117,359	(700,000)	1,751,087	24,291,709	
<b>Non-Controlled Affiliates</b>						
Direct Buy Holdings, Inc. **	10,880,000	300,197		623,363	17,314,749	(1,350,000)
Envirosolutions, Inc.	18,425,519	1,779,860			21,185,786	
PAS International Holdings, Inc. *	17,946,928	3,000,000		454,431	5,307,123	(1,999,960)
Performance Holdings, Inc.	18,028,080			1,286,313	18,603,905	
Service Champ, Inc.	44,501,658			1,493,785	46,818,209	
<b>Total Controlled and Non-Controlled Affiliates</b>	<b>\$ 147,413,893</b>	<b>\$ 9,697,416</b>	<b>\$ (6,700,000)</b>	<b>\$ 7,010,437</b>	<b>\$ 146,521,482</b>	<b>\$ (3,349,960)</b>

\* Became a non-controlled affiliate during the three months ended March 31, 2013.

\*\* Became a non-controlled affiliate during the three months ended December 31, 2012.

**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,	
	2013	2012	2013	2012
Numerator for net increase in net assets resulting from operations	\$ 13,785,532	\$ 3,419,732	\$ 69,299,053	\$ 45,663,365
Denominator for basic and diluted weighted average shares	66,450,117	56,365,576	66,340,895	51,680,907
Basic and diluted net increase in net assets per share resulting from operations	\$ 0.21	\$ 0.06	\$ 1.05	\$ 0.88

**8. 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

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

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, 2013 and September 30, 2012, cash equivalents were invested in money market funds in the amount of \$16.3 million and \$7.6 million, respectively.

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****JUNE 30, 2013****(Unaudited)****9. FINANCIAL HIGHLIGHTS**

Below are the financial highlights:

	<b>Nine Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 10.22	\$ 10.13
Net investment income <sup>(1)</sup>	0.76	0.78
Net change in realized and unrealized gain <sup>(1)</sup>	0.29	0.10
Net increase in net assets resulting from operations <sup>(1)</sup>	1.05	0.88
Distributions to stockholders <sup>(1)(2)</sup>	(0.84)	(0.86)
Effect of common stock issuance		0.09
Effect of offering costs		(0.08)
Net asset value, end of period	\$ 10.43	\$ 10.16
Per share market value, end of period	\$ 11.05	\$ 10.35
Total return* <sup>(3)</sup>	12.20%	25.70%
Shares outstanding at end of period	66,450,117	56,367,339
<b>Ratios ** / Supplemental Data:</b>		
Ratio of operating expenses to average net assets <sup>(4)</sup>	6.48%	7.12%
Ratio of debt expenses to average net assets <sup>(5)</sup>	2.56%	3.41%
Ratio of total expenses to average net assets	9.04%	10.52%
Ratio of net investment income to average net assets	9.57%	10.04%
Net assets at end of period	\$ 693,102,657	\$ 572,661,509
Average debt outstanding	\$ 321,315,385	\$ 334,601,095
Average debt per share <sup>(1)</sup>	\$ 4.84	\$ 6.47
Portfolio turnover ratio	33.72%	26.92%

\* Not annualized for periods less than one year.

\*\* Annualized for periods less than one year.

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

(2) Determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

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



- (4) Operating expenses exclude debt related costs.
- (5) Ratio does not annualize the 2025 Notes offering costs or costs associated with increasing the size of our Credit Facility.

**10. DEBT**

***Credit Facility***

We have a \$430 million multi-currency Credit Facility 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, 2013 and September 30, 2012, there was \$114.5 million (including a temporary draw of \$11.0 million) and \$145.0 million (including a temporary draw of \$35.5 million), respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.19% and 3.49%, respectively, exclusive of the fee on undrawn commitments of 0.50%. The Credit Facility is a four-year revolving facility, maturing in February 2016, with a one-year term-out period following its third-year, and pricing is set at 275 basis points over LIBOR. The Credit Facility is secured by substantially all of the Company's assets excluding assets held by our SBIC Funds.

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.

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****JUNE 30, 2013****(Unaudited)****SBA Debentures**

SBIC LP is 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 had SBA debentures outstanding of \$150.0 million as of June 30, 2013. In January 2013, our wholly-owned subsidiary, SBIC II, received a license from the SBA to operate as an SBIC under the 1958 Act. We have funded SBIC II with \$2.5 million of seed capital. Our SBIC Funds are subject to a variety of regulations and oversight by the SBA concerning, among other things, the size and nature of the companies in which it may invest as well as the structure of those investments. SBA debentures are non-recourse to us, have a 10-year maturity, 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. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and may borrow to a maximum of \$225 million as part of a group of SBICs under common control. SBIC LP has accessed the maximum borrowing with its \$75.0 million in regulatory capital.

As of June 30, 2013, SBIC LP had fully drawn \$150.0 million in debt commitments with a weighted average interest rate of 3.70%, exclusive of the 3.43% of upfront fees, which are amortized over the life of the loan (4.04% after upfront fees). Our fixed-rate SBA debentures as of both June 30, 2013 and September 30, 2012 were as follows:

<b>Issuance Dates</b>	<b>Maturity</b>	<b>Fixed All-in Coupon Rate <sup>(1)</sup></b>	<b>Principal Balance</b>
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

<sup>(1)</sup> Excluding 3.43% of upfront fees.

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 its 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 its use of debentures, declare outstanding debentures immediately due and payable and/or limit it 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**

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

In January 2013 we issued \$71.3 million in aggregate principal amount of 2025 Notes, including the 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 will 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.

### 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 debt investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

PennantPark Investment Corporation and Subsidiaries

We have reviewed the accompanying consolidated statement of assets and liabilities of PennantPark Investment Corporation and Subsidiaries (the Company), including the consolidated schedule of investments, as of June 30, 2013, the consolidated statement of operations for the three and nine months ended June 30, 2013 and June 30, 2012, and the consolidated statement of changes in net assets and cash flows for the nine months ended June 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the consolidated 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.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities of PennantPark Investment Corporation and Subsidiaries, including the consolidated schedule of investments, as of September 30, 2012 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 14, 2012, we expressed an unqualified opinion on those consolidated financial statements.

New York, New York

August 7, 2013

**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 future events or our future performance or 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 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; and
- the impact of future legislation and regulation on our business and our portfolio companies.

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

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 in Risk Factors 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 of 1933, as amended, or the Securities Act, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, 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.

---

## **Table of Contents**

### ***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, to a lesser extent, equity investments.

We believe the middle-market offers 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. In addition, we expect our debt investments to generally range in maturity from three to ten years.

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, the SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

### ***Organization and Structure of PennantPark Investment Corporation***

PennantPark Investment Corporation was organized under the Maryland General Corporation Law in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to hold at least 70% of our total assets in "qualifying assets," including securities of U.S. private companies or thinly traded public companies (public companies with a market capitalization of less than \$250 million), cash, cash equivalents, U.S. government securities and high quality debt investments that mature in one year or less. In addition, for federal income tax purposes we intend to continue to be treated as a RIC and qualify annually 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 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.

Our investment activities are managed by the Investment Adviser. Under our investment management agreement with the Investment Adviser, or the 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 administrative agreement, or the 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. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments and payment-in-kind, or 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





## **Table of Contents**

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 management fees to our Investment Adviser, our allocable portion of overhead under our Administration Agreement and other operating costs as detailed below. Our management fee compensates our Investment Adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments. Additionally, we pay interest expense on the outstanding debt and unused commitments we accrue 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 complimentary 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 and state registration fees and any exchange listing fees;

federal, state and local taxes;

independent directors' fees and expenses;

brokerage commissions;

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

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

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

costs associated with our reporting and compliance obligations under the 1940 Act, 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.

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.

#### **PORTFOLIO AND INVESTMENT ACTIVITY**

As of June 30, 2013, our portfolio totaled \$1,066.3 million and consisted of \$315.5 million of senior secured loans, \$239.3 million of second lien secured debt, \$387.4 million of subordinated debt and \$124.1 million of preferred and common equity investments. Our debt portfolio consisted of 60% fixed-rate and 40% variable-rate investments (including 36% with a London Interbank Offered Rate, or LIBOR, or prime floor). Our overall portfolio consisted of 57 companies with an average investment size of \$18.7 million, had a weighted average yield on debt investments of 13.1%, and was invested 30% in senior secured loans, 22% in second lien secured debt, 36% in subordinated debt and 12% in preferred and common equity investments.

As of September 30, 2012, our portfolio totaled \$990.5 million and consisted of \$291.7 million of senior secured loans, \$191.3 million of second lien secured debt, \$400.7 million of subordinated debt and \$106.8 million of preferred and common equity investments. Our debt portfolio consisted of 69% fixed-rate and 31% variable-rate investments (including 26% with a LIBOR or prime floor). As of September 30, 2012, we had one non-accrual debt investment, representing 3.2% and 1.1% of our overall portfolio on a cost and fair value basis, respectively. Our overall portfolio consisted of 54 companies with an average investment size of \$18.3 million, had a weighted average yield on debt investments of 13.2%, and was invested 30% in senior secured loans, 19% in second lien secured debt, 40% in subordinated debt and 11% in preferred and common equity investments.

---

## **Table of Contents**

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 long-term 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 of 12.9% on debt investments. Sales and repayments of long-term investments for the nine months ended June 30, 2013 totaled \$271.2 million.

For the three months ended June 30, 2012, we invested \$89.9 million in three new and two existing portfolio companies with a weighted average yield on debt investments of 13.0%. Sales and repayments of long-term investments for the three months ended June 30, 2012 totaled \$55.3 million. For the nine months ended June 30, 2012, we invested \$243.8 million in nine new and 13 existing portfolio companies with a weighted average yield of 13.7% on debt investments. Sales and repayments of long-term investments for the nine months ended June 30, 2012 totaled \$173.8 million.

## **CRITICAL ACCOUNTING POLICIES**

The discussion of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from these estimates. We may reclassify 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 literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. Changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

### ***Valuation of Portfolio Investments***

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 or dealers, if available, or otherwise by a principal market maker or a primary market dealer. 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.

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 differences could be material.

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

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

- (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;

**Table of Contents**

- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms and responds 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.

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.

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 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 \$2.8 million relating to debt issuance related costs. 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 on its earnings. 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 recorded in the 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, 2013, our Credit Facility and 2025 Notes had a combined net change in unrealized depreciation (appreciation) of \$0.4 million and \$(0.5) million, respectively. For the three and nine months ended June 30, 2012, our Credit Facility had a net change in unrealized depreciation (appreciation) of \$0.2 million and \$(1.2) million, respectively. As of June 30, 2013 and September 30, 2012, combined net unrealized depreciation on our Credit Facility and 2025 Notes totaled zero and \$0.5 million, respectively. PennantPark Investment uses a nationally recognized independent valuation service to measure the fair value of its Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the New York Stock Exchange, or the NYSE, and PennantPark Investment uses the closing quote on the exchange to measure 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

## **Table of Contents**

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 using the effective interest method as interest income or interest expense as it relates to our deferred financing costs. We record contractual prepayment premiums 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.

### ***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 dividends, even though we have not collected any cash with respect to PIK securities.

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

We have complied with the requirements under Subchapter M of the Code and expect to be subject to tax as a RIC. To maintain RIC tax benefits, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements (as described below). We also must annually distribute dividends of 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 the sum of our realized net capital gains 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 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 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. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

---

**Table of Contents****RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three and nine months ended June 30, 2013 and 2012.

***Investment Income***

Investment income for the three and nine months ended June 30, 2013 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 common equity investments, respectively. This compares to investment income for the three and nine months ended June 30, 2012 which was \$29.4 million and \$82.6 million, respectively, and was attributable to \$9.2 million and \$30.0 million from senior secured loans, \$4.8 million and \$13.3 million from second lien secured debt investments, and \$15.4 million and \$39.3 million from subordinated debt investments, respectively. The increase in investment income compared with the same period in the prior year was due to the growth of our portfolio.

***Expenses***

Expenses for the three and nine months ended June 30, 2013 totaled \$16.1 million and \$47.8 million, respectively. Base management fees 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 (excluding the \$0.3 million and \$2.7 million of debt issuance expenses, respectively) totaled \$4.2 million and \$11.3 million, general and administrative expenses and excise tax totaled \$1.8 million and \$5.4 million, respectively. This compares to expenses for the three and nine months ended June 30, 2012, which totaled \$13.8 million and \$42.3 million, respectively. Base management fees for the same respective periods totaled \$4.5 million and \$12.7 million, incentive fees totaled \$3.9 million and \$10.0 million, debt-related interest and expenses (excluding the \$5.4 million upfront fees associated with amending and restating our Credit Facility) totaled \$3.2 million and \$8.3 million, general and administrative expenses totaled \$1.8 million and \$5.3 million and excise taxes totaled \$0.4 million and \$0.6 million, respectively. The increase in expenses was due to the growth of the portfolio as well as the higher cost of debt capital.

***Net Investment Income***

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. For the same respective periods in the prior year, net investment income totaled \$15.6 million and \$40.3 million, or \$0.28 and \$0.78 per share. The increase in net investment income compared to the same period in the prior year was primarily the result of the growth of our portfolio offset by the increased cost of debt capital. The net investment income per share decreased compared to the same period in the prior year as a result of issuing shares.

***Net Realized Gains or Losses***

Sales and repayments of long-term 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, due to sales and refinancing of our investments. Sales and repayments of long-term investments for the three and nine months ended June 30, 2012 totaled \$55.3 million and \$173.8 million, respectively, and realized gains (losses) totaled \$1.4 million and \$(10.5) million, respectively, due to sales and refinancing of our investments.

***Unrealized Appreciation or Depreciation on Investments and Debt***



For the three and nine months ended June 30, 2013, we reported unrealized (depreciation) appreciation on investments of \$(20.0) million and \$5.2 million, respectively. For the three and nine months ended June 30, 2012, we reported unrealized (depreciation) appreciation on investments of \$(13.8) million and \$17.0 million, respectively. The decrease in unrealized appreciation for current periods compared to the prior periods was the result of the reversal of unrealized gains upon exiting our investments and changes in market values. As of June 30, 2013 and September 30, 2012, our net unrealized depreciation on investments totaled \$12.9 million and \$18.1 million, respectively.

For the three and nine months ended June 30, 2013, our Credit Facility and 2025 Notes changed in value due to unrealized depreciation (appreciation) of \$0.4 million and \$(0.5) million, respectively. For the three and nine months ended June 30, 2012, our Credit Facility increased in value due to unrealized depreciation (appreciation) of \$0.2 million and \$(1.2) million, respectively. The change in unrealized appreciation for current periods compared to the prior periods is the result of issuing new debt capital and the resetting of our Credit Facility to current market rates. As of June 30, 2013 and September 30, 2012, net unrealized depreciation on our Credit Facility and 2025 Notes totaled zero and \$0.5 million, respectively.

---

**Table of Contents*****Net Increase in Net Assets Resulting from Operations***

Net increase in net assets resulting from operations totaled \$13.8 million and \$69.3 million or \$0.21 per share and \$1.05 per share, for the three and nine months ended June 30, 2013, respectively. This compares to a net increase in net assets resulting from operations which totaled \$3.4 million and \$45.7 million, or \$0.06 per share and \$0.88 per share, for the three and nine months ended June 30, 2012, respectively. The change in net assets from operations is due to both unrealized appreciation on investments and net investment income.

**LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt capital 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 capital and proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

We have a \$430 million multi-currency Credit Facility 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, 2013 and September 30, 2012, there was \$114.5 million (including a temporary draw of \$11.0 million) and \$145.0 million (including a temporary draw of \$35.5 million), respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.19% and 3.49%, respectively, exclusive of the fee on undrawn commitments of 0.50%. The Credit Facility is a four-year revolving facility, maturing in February 2016, with a one-year term-out period following its third-year, and pricing is set at 275 basis points over LIBOR. As of June 30, 2013 and September 30, 2012, we had \$315.5 million and \$235.0 million of unused borrowing capacity, respectively, subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The Credit Facility is secured by substantially all of the Company's assets excluding assets held by our SBIC Funds.

The Credit Facility contains customary affirmative and restrictive covenants, including maintenance of a minimum shareholders' equity of the sum of (a) \$220.0 million plus (b) 25% of the net proceeds from the sale of equity interests in us and our subsidiaries after the closing date of the Credit Facility and maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2.0:1.0 (before any exemptive relief granted by the SEC with respect to the indebtedness of our SBIC subsidiaries). In addition to the asset coverage ratio described in the preceding sentence, borrowings under our Credit Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company's portfolio. For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on February 22, 2012 and the Credit Facility agreement filed as an exhibit to our Form 10-Q filed on May 2, 2012. As of June 30, 2013, 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, commencing on May 1, 2013. 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 will 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. 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 shareholders or for other general corporate or strategic purposes. For the nine months ended June 30, 2013, we issued an additional 700,000 shares of common stock, pursuant to the underwriters' partial exercise of the over-allotment option in connection with an equity offering, at a public offering price of \$10.82 per share, generating gross proceeds of \$7.6 million and net proceeds of \$7.3 million after underwriting discounts payable by us. Any decision to sell shares below the then current net asset value per share of our common stock is subject to shareholder 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.

**Table of Contents**

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, 2013, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. As a result of this exemptive relief, our ratio of total assets on a consolidated basis, including the principal amount of our SBA debentures, to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

SBIC LP is 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 had SBA debentures outstanding of \$150.0 million as of June 30, 2013. Effective January 2013, our wholly-owned subsidiary, SBIC II, received a license from the SBA to operate as an SBIC under the 1958 Act. Our SBIC Funds are subject to a variety of regulations and oversight by the SBA concerning, among other things, the size and nature of the companies in which it may invest as well as the structure of those investments. SBA debentures are non-recourse to us, have a 10-year maturity, 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. SBA current regulations limit the amount that SBIC LP may borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and may borrow to a maximum of \$225 million as part of a group of SBICs under common control. SBIC LP has accessed the maximum borrowing with its \$75.0 million in regulatory capital.

As of June 30, 2013 and September 30, 2012, SBIC LP had fully drawn \$150.0 million in debt commitments with a weighted average interest rate of 3.70% exclusive of the 3.43% in upfront fees (4.04% after upfront fees). 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 are being amortized over the lives of the loans. Our fixed rate SBA debentures as of June 30, 2013 and September 30, 2012 were as follows:

<b>Issuance Dates</b>	<b>Maturity</b>	<b>Fixed All-in Coupon Rate <sup>(1)</sup></b>	<b>Principal Balance</b>
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

(1) Excludes 3.43% of upfront fees.

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 is subject to periodic audits and examinations of its 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, 2013, our SBIC Funds were in compliance with their regulatory requirements.

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.

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 our Credit Facility.

Our operating activities used cash of \$74.3 million for the nine months ended June 30, 2012, primarily for net purchase of investments. Our financing activities provided cash of \$12.0 million for the same period and used proceeds from our September 2012 equity offering to pay down the Credit Facility.

**Table of Contents****Contractual Obligations**

A summary of our significant contractual payment obligations as of June 30, 2013 including borrowings under our 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	\$ 114.5	\$	\$ 114.5	\$	\$
2025 Notes	71.3				71.3
SBA debentures	150.0				150.0
Total debt outstanding <sup>(1)</sup>	335.8		114.5		221.3
Unfunded investments <sup>(2)</sup>	22.9	20.5	1.9		0.5
Total contractual obligations	\$ 358.7	\$ 20.5	\$ 116.4	\$	\$ 221.8

(1) The weighted average interest rate on the total debt outstanding as of June 30, 2013 was 4.07% exclusive of the fee on the undrawn commitment of 0.50% on the Credit Facility and 3.43% of upfront fees on SBIC LP's SBA debentures.

(2) Unfunded debt investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently reapproved in February 2013, 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 agreement does 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 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 in February 2013, 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.

If any of our contractual obligations discussed above is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide

the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

### ***Off-Balance Sheet Arrangements***

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

### ***Dividends and 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 dividends of 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

**Table of Contents**

additional liquidity. Although not required for us to maintain our RIC tax status, for the three and nine months ended June 30, 2013 we elected to retain a portion of our calendar year income and incurred an excise tax of less than \$0.1 million and \$(0.1) million, respectively. For the three and nine months ended June 30, 2012 we incurred an excise tax of approximately \$0.4 million and \$0.6 million, respectively.

During the three and nine months ended June 30, 2013 we declared distributions of \$0.28 and \$0.84 per share, respectively, for total distributions of \$18.6 million and \$55.8 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 \$15.8 million and \$44.3 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 dividends to our stockholders. Our quarterly dividends, 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 dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage 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 dividends and 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, 2013, our debt portfolio consisted of 60% fixed-rate investments and 40% variable-rate investments (including 36% 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 existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

<b>Change In Interest Rates</b>	<b>Change in Interest Income, Net of Interest Expense Per Share</b>	
Up 1%	(824,616)	\$ (0.01)
Up 2%	(1,190,326)	\$ (0.02)
Up 3%	1,362,896	\$ 0.02
Up 4%	3,916,118	\$ 0.06

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 the statement above.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds 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, 2013 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, 2012, in Part II Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, and in Part II Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K and our prior Quarterly Report on Form 10-Q 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 Disclosures**

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 the Registrant's Pre-Effective Amendment No.1 to the Registration Statement on Form N-2/A (File No. 333-140092), filed on March 5, 2007).
- 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 16, 2011).
- 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).
- 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 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 7, 2013

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

**(Principal Executive Officer)**

Date: August 7, 2013

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

**(Principal Financial and Accounting Officer)**