

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

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MARYLAND
(State or other jurisdiction of
incorporation or organization)
590 Madison Avenue, 15th 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.

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PENNANTPARK INVESTMENT CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2013

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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.

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	June 30, 2013	
	(unaudited) September 30, 2012	
Assets		
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
Total assets	1,101,994,293	1,018,967,531
Liabilities		
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
Total liabilities	408,891,636	349,250,484
Net assets		
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
Total net assets	\$ 693,102,657	\$ 669,717,047
Total liabilities and net assets	\$ 1,101,994,293	\$ 1,018,967,531
Net asset value per share	\$ 10.43	\$ 10.22

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
Investment income:				
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
Total investment income	33,724,673	29,385,618	97,739,835	82,586,035
Expenses:				
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
Expenses before taxes and debt issuance costs	15,717,340	13,461,325	45,166,131	36,264,319
Tax expense	32,500	353,697	(82,396)	633,697
Debt issuance costs (See Note 5)	320,000		2,757,500	5,361,319
Total expenses	16,069,840	13,815,022	47,841,235	42,259,335
Net investment income	17,654,833	15,570,596	49,898,600	40,326,700
Realized and unrealized (loss) gain on investments and debt:				
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)
Net change in unrealized appreciation (depreciation)	(19,552,009)	(13,597,948)	4,677,377	15,841,591
Net realized and unrealized (loss) gain from investments and debt	(3,869,301)	(12,150,864)	19,400,453	5,336,665
Net increase in net assets resulting from operations	\$ 13,785,532	\$ 3,419,732	\$ 69,299,053	\$ 45,663,365
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

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	Nine Months Ended June 30,	
	2013	2012
Net increase in net assets from operations:		
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)
Net increase in net assets resulting from operations	69,299,053	45,663,365
Distributions to stockholders:		
Distributions	(55,778,317)	(44,313,916)
Capital share transactions:		
Public offering	7,574,000	109,192,500
Offering costs	(265,090)	(3,979,000)
Reinvestment of dividends	2,555,964	3,441,364
Net increase from capital transactions	9,864,874	108,654,864
Total increase in net assets	23,385,610	110,004,313
Net assets:		
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
Capital share activity:		
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

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
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)
Cash flows from financing activities:		
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
Net increase (decrease) in cash equivalents	8,763,050	(62,288,504)
Cash equivalents, beginning of period	7,559,453	71,604,519
Cash equivalents, end of period	\$ 16,322,503	\$ 9,316,015

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	\$

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2013

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies				132.7% ^{(1),(2)}			
First Lien							
Secured							
Debt 43.9%							
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975 ⁽⁸⁾	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 ^{(5),(10)}	10/01/2016	Cargo Transport	11.63%		7,500,000	7,377,482	7,575,000
Columbus International, Inc. ^{(5),(10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	10,775,000
Good Sam Enterprises, LLC ⁽⁵⁾	12/01/2016	Consumer Products	11.50%		12,000,000	11,825,237	12,780,000
IDQ Holdings, Inc. ⁽⁵⁾	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 ⁽⁸⁾	11,600,000	11,600,000	11,656,976
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	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 ⁽⁸⁾	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

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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 ⁽⁸⁾	21,389,871	20,852,000	21,069,023
Penton Media, Inc.	08/01/2014	Other Media	6.00%	L+500 ⁽⁸⁾	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 ⁽⁸⁾	40,000,000	38,930,746	40,000,000
Prince Mineral Holding Corp. ⁽⁵⁾	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 ⁽⁸⁾	34,708,300	34,200,105	34,708,300
Worley Claims Services LLC	07/06/2017	Insurance	12.50%	L+1,100 ⁽⁸⁾	12,576,865	12,576,865	12,513,980
Total First Lien Secured Debt						299,040,794	304,429,035
Second Lien Secured Debt 31.1%							
American Gilsonite Company ⁽⁵⁾	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 ⁽⁸⁾	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 ⁽⁸⁾	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 ⁽⁸⁾	38,950,000	38,253,595	39,209,680
Language Line, LLC	12/20/2016	Personal, Food and Miscellaneous Services	10.50%	L+875 ⁽⁸⁾	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. ⁽⁵⁾							
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+550 ⁽⁸⁾	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 ⁽⁸⁾	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
Total Second Lien Secured Debt						205,824,919	215,327,176

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	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fa
and 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	

Financed Debt/Corporate Notes				336,592,237
Equity/Partnership Interests 1.3%⁽⁶⁾				
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 ⁽⁹⁾ (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
Red Equity/Partnership Interests				9,463,293

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Name	Maturity	Industry	Current Coupon ⁽⁴⁾	Basis Point Spread Above Index	Par / Shares	Cost	Fair Value
Investment in Equity/Warrants/Partnership Interests 9.4%							
Investment Holdings, LLC, Class A Units ⁽¹²⁾		Electronics			1,998	\$ 2,000,000	\$ 1,500,000
Investment Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		2,500,000
Investment Holdings, LLC, Class A, Investment Holdings, LLC		Financial Services			1	950	
Investment Holdings, LLC		Broadcasting and Entertainment			1,333,330	3,000,000	
Investment Holdings, LLC (Galls, LLC)		Distribution			1,505,000	1,505,000	2,100,000
Investment Holdings, LLC		Healthcare, Education and Childcare			23,416	234,693	300,000
Investment Holdings, LLC ⁽⁹⁾		Healthcare, Education and Childcare			11,708	117,346	100,000
Investment Holdings, LLC		Electronics			2,375		
Investment Holdings, LLC		Business Services			5,556	1,918,346	7,000,000
Investment Holdings, LLC (Hanley-Wood, LLC)		Other Media			386,770	2,697,834	3,400,000
Investment Holdings, LLC, Class A Investment Holdings, LLC		Healthcare, Education and Childcare			1,079,920	1,236,831	11,300,000
Investment Holdings, LLC, Class D Investment Holdings, LLC		Healthcare, Education and Childcare			1,079,920	1,028,807	1,000,000
Investment Holdings, LLC (Warrants)	04/27/2020	Education			6,649	779,920	3,500,000
Investment Holdings, LLC		Oil and Gas			1,221,932	3,239,999	4,400,000
Investment Holdings, LLC (Warrants)	10/14/2013	Oil and Gas			122,193	105,697	
Investment Holdings, LLC		Distribution			1,850	1,850,294	1,800,000
Investment Holdings, LLC		Personal, Food and Miscellaneous Services			3,000	3,000,000	5,300,000
Investment Holdings, LLC		Healthcare, Education and Childcare			20,000	2,000,000	2,800,000

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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. ⁽¹³⁾ 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
Common Equity/Warrants/Partnership Interests				37,557,161	64,8
Investments in Non-Controlled, Non-Affiliated Portfolio Companies				888,478,404	919,7

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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
Controlled, Affiliated Portfolio Companies 15.7%^{(1),(2)}						
Debt 1.1%	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625 ⁽⁸⁾	8,000,000	\$ 8,000,000
Corporate Notes 8.6%						
	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% ⁽⁷⁾		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
Debt/Corporate Notes						58,020,000
Equity 5.3%⁽⁶⁾						
Inc.		Aerospace and Defense			53,071	20,050,000
Partnership Interest 5.3%⁽⁶⁾						
		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

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

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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.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2012

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

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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 ⁽⁸⁾	18,952,500	18,216,865	19,236,780
Admon Pharmaceuticals, LLC	10/31/2012	Healthcare, Education and Childcare	15.00%	L+1,300 ⁽⁸⁾	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 ⁽⁸⁾	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 ⁽⁸⁾	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 ⁽⁸⁾	35,000,000	34,118,800	35,350,000
Questex Media Group LLC ⁽⁹⁾	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 ⁽⁸⁾	850,000	838,369	850,000
Kelec Global Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200 ⁽⁸⁾	10,625,000	10,338,450	10,848,120
Corley Claims Services, LLC	07/06/2017	Insurance	12.50%	L+1,100 ⁽⁸⁾	14,934,000	14,934,000	14,859,330
Monkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,401,515	4,860,000
Total First Lien Secured Debt						277,427,564	278,960,880
Second Lien Secured Debt 25.3%							
American Lsonite Company ⁽⁵⁾	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. ⁽⁵⁾	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

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Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00%	L+700 ⁽⁸⁾	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 ⁽⁸⁾	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 ⁽⁸⁾	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 ⁽⁸⁾	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
Total Second Lien Secured Debt						188,644,968	169,366,950

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

SEPTEMBER 30, 2012

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Value (3)
Subordinated Debt/Corporate Notes 52.4%							
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% ⁽⁷⁾		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. ⁽⁹⁾	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

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			(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% ⁽⁷⁾	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. ⁽⁹⁾	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%⁽⁶⁾

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 ⁽⁹⁾ (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
Total Preferred Equity/Partnership Interests				12,101,421	11,178,282

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Value (3)
Common Equity/Warrants/Partnership Interests 9.2%							
Acentia, LLC, Class A Units ⁽¹²⁾		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 ⁽¹¹⁾ (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 ⁽⁹⁾ (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. ⁽¹³⁾ (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

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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
Total Common Equity/Warrants/ Partnership Interests			38,457,098	61,315,758
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies			871,867,953	871,892,745

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

Investments in Non-Controlled, Affiliated Portfolio Companies				72,576,858	80,955,	
Investments in Controlled, Affiliated Portfolio Companies 5.6% ^{(1),(2)}						
Lien Secured 1.9%						
PenPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁷⁾	10,800,000	10,800,000	10,800,
Support Services, Inc. ⁽⁹⁾	12/31/2015	Oil and Gas		743,187	668,632	743,
Support Services, Inc. ⁽⁹⁾	12/31/2015	Oil and Gas		1,173,479	1,068,059	1,173,
First Lien Secured					12,536,691	12,716,
Second Lien Secured 2.1%						
Support Services, Inc.	12/31/2015	Oil and Gas	15.00%	14,300,282	11,809,647	14,300,
						(PIK 15.00)%
Subordinated Corporate Notes 0.3%						
PenPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁷⁾	2,700,000	2,700,000	2,158,
Preferred Equity 1.3%						
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.						
Preferred Equity					37,120,613	8,456,
Common Equity 0.0% ⁽⁶⁾						
PenPark Holdings, Inc.		Business Services		100	100	
Investments in Controlled, Related Portfolio Companies					64,167,051	37,631,
Investments 147.9%					1,008,611,862	990,479,
Equivalents 1.1%					7,559,453	7,559,
Investments and Cash Equivalents 149.0%					\$ 1,016,171,315	\$ 998,039,
Liabilities in Excess of Other Assets (49.0%)						(328,322,
Assets 100.0%						\$ 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

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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

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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.

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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.

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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.

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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

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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

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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		