

PENNANTPARK INVESTMENT CORP  
Form 10-Q  
February 06, 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 DECEMBER 31, 2012**

**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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<b>MARYLAND</b> (State or other jurisdiction of incorporation or organization)	<b>20-8250744</b> (I.R.S. Employer Identification No.)
<b>590 Madison Avenue, 15<sup>th</sup> Floor</b>  <b>New York, N.Y.</b> (Address of principal executive offices)	<b>10022</b> (Zip Code)
<b>(212)-905-1000</b>  (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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 February 6, 2013 was 66,401,248.

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**PENNANTPARK INVESTMENT CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER ENDED DECEMBER 31, 2012**

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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; SBIC LP and SBIC II or, collectively, our SBIC Funds, refers to our wholly owned, consolidated small business investment companies, or SBIC, subsidiaries, PennantPark SBIC LP and PennantPark SBIC II LP; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC. References to our portfolio or investments include investments we make through our SBIC Funds and other consolidated subsidiaries. SBA refers to the Small Business Administration. Credit Facility refers to our multi-currency, senior secured revolving credit facility. BDC refers to a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act.

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

	December 31, 2012 (unaudited)	September 30, 2012
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$902,897,172 and \$871,867,953, respectively)	\$ 931,419,104	\$ 871,892,745
Non-controlled, affiliated investments, at fair value (cost \$105,925,644 and \$72,576,858, respectively)	93,671,686	80,955,257
Controlled, affiliated investments, at fair value (cost \$63,680,393 and \$64,167,051, respectively)	39,316,805	37,631,708
Total of investments, at fair value (cost \$1,072,503,209 and \$1,008,611,862, respectively)	1,064,407,595	990,479,710
Cash equivalents (See Note 8)	31,291,517	7,559,453
Interest receivable	10,815,263	14,928,862
Prepaid expenses and other assets	5,635,205	5,999,506
<b>Total assets</b>	<b>1,112,149,580</b>	<b>1,018,967,531</b>
<b>Liabilities</b>		
Distributions payable	18,579,935	15,824,061
Payable for investments purchased	1,357,840	
Unfunded investments	26,801,667	26,935,270
Credit Facility payable (cost \$211,500,000 and \$145,000,000, respectively) (See Notes 5 and 10)	211,500,000	144,452,500
SBA debentures payable (cost \$150,000,000) (See Notes 5 and 10)	150,000,000	150,000,000
Interest payable on Credit Facility and SBA debentures	2,451,109	854,725
Management fee payable (See Note 3)	5,128,611	4,791,913
Performance-based incentive fee payable (See Note 3)	4,545,254	4,206,989
Accrued other expenses	3,282,743	2,185,026
<b>Total liabilities</b>	<b>423,647,159</b>	<b>349,250,484</b>
<b>Net assets</b>		
Common stock, 66,356,911 and 65,514,503 shares issued and outstanding, respectively. Par value \$0.001 per share and 100,000,000 shares authorized.	66,356	65,514
Paid-in capital in excess of par value	753,528,106	744,704,825
Undistributed net investment income	2,405,478	2,804,397
Accumulated net realized loss on investments	(59,401,905)	(60,273,037)
Net unrealized depreciation on investments	(8,095,614)	(18,132,152)
Net unrealized depreciation on Credit Facility		547,500
<b>Total net assets</b>	<b>\$ 688,502,421</b>	<b>\$ 669,717,047</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,112,149,580</b>	<b>\$ 1,018,967,531</b>
<b>Net asset value per share</b>	<b>\$ 10.38</b>	<b>\$ 10.22</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

	<b>Three months ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Investment income:</b>		
From non-controlled, non-affiliated investments:		
Interest	\$ 25,768,617	\$ 24,020,424
Other income and dividends	4,366,274	1,870,514
From non-controlled, affiliated investments:		
Interest	1,392,503	572,931
Other income	227,800	
From controlled, affiliated investments:		
Interest	1,202,707	374,889
<b>Total investment income</b>	<b>32,957,901</b>	<b>26,838,758</b>
<b>Expenses:</b>		
Base management fee (See Note 3)	5,128,611	4,043,281
Performance-based incentive fee (See Note 3)	4,545,254	3,749,128
Interest and expenses on Credit Facility and SBA debentures (See Note 10)	3,094,865	2,375,123
Administrative services expenses (See Note 3)	1,172,322	797,353
Other general and administrative expenses	760,532	842,345
<b>Expenses before excise taxes</b>	<b>14,701,584</b>	<b>11,807,230</b>
Excise tax	75,301	35,000
<b>Total expenses</b>	<b>14,776,885</b>	<b>11,842,230</b>
<b>Net investment income</b>	<b>18,181,016</b>	<b>14,996,528</b>
<b>Realized and unrealized gain (loss) on investments and Credit Facility:</b>		
Net realized gain (loss) on non-controlled, non-affiliated investments	871,132	(8,029,555)
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments	6,062,321	8,064,782
Non-controlled and controlled, affiliated investments (See Note 6)	3,974,217	1,961,644
Credit Facility (appreciation) (See Notes 5 and 10)	(547,500)	(1,147,875)
Net change in unrealized appreciation	9,489,038	8,878,551
Net realized and unrealized gain from investments and Credit Facility	10,360,170	848,996
<b>Net increase in net assets resulting from operations</b>	<b>\$ 28,541,186</b>	<b>\$ 15,845,524</b>
Net increase in net assets resulting from operations per common share basic and diluted (See Note 7)	\$ 0.44	\$ 0.34
Net investment income per common share	\$ 0.28	\$ 0.33

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS





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

	<b>Three Months Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net increase in net assets from operations:</b>		
Net investment income	\$ 18,181,016	\$ 14,996,528
Net realized gain (loss) on investments	871,132	(8,029,555)
Net change in unrealized appreciation on investments	10,036,538	10,026,426
Net change in unrealized appreciation on Credit Facility	(547,500)	(1,147,875)
<b>Net increase in net assets resulting from operations</b>	<b>28,541,186</b>	<b>15,845,524</b>
<b>Distribution to stockholders:</b>		
Distribution	(18,579,935)	(12,793,138)
<b>Capital transactions:</b>		
Public offering	7,574,000	
Offering costs	(265,090)	
Reinvestment of dividends	1,515,213	
<b>Net increase from capital transactions</b>	<b>8,824,123</b>	
<b>Net increase in net assets</b>	<b>18,785,374</b>	<b>3,052,386</b>
<b>Net assets:</b>		
Beginning of period	669,717,047	462,657,196
End of period	\$ 688,502,421	\$ 465,709,582
Undistributed net investment income, at end of period	\$ 2,405,478	\$ 10,530,244
<b>Capital share activity:</b>		
Shares issued from public offering	700,000	
Shares issued from reinvestment of dividends	142,408	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Three Months Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 28,541,186	\$ 15,845,524
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used for) provided by operating activities:		
Net change in net unrealized (appreciation) on investments	(10,036,538)	(10,026,426)
Net change in unrealized appreciation on Credit Facility	547,500	1,147,875
Net realized (gain) loss on investments	(871,132)	8,029,555
Net accretion of discount and amortization of premium	(1,451,536)	(4,098,587)
Purchases of investments	(168,396,168)	(43,003,570)
Payment-in-kind	(4,138,861)	(3,067,138)
Proceeds from dispositions of investments	110,832,747	69,280,225
Decrease in receivables for investments sold		10,660,804
Decrease in interest receivable	4,113,599	3,057,314
Decrease in prepaid expenses and other assets	364,301	933,768
Increase (decrease) in payables for investments purchased	1,357,840	(18,184,827)
Decrease in unfunded investments		(785,552)
Increase in interest payable on Credit Facility and SBA debentures	1,596,384	1,179,075
Increase in management fees payable	336,698	35,227
Increase (decrease) in performance-based incentive fees payable	338,265	(24,834)
Increase in accrued other expenses	1,097,717	729,057
 Net cash (used for) provided by operating activities	 (35,767,998)	 31,707,490
<b>Cash flows from financing activities:</b>		
Public offerings	7,574,000	
Offering costs	(265,090)	
Distributions paid, net of dividends reinvested	(14,308,848)	(12,336,241)
Borrowings under Credit Facility (See Note 10)	376,300,000	295,300,000
Repayments under Credit Facility (See Note 10)	(309,800,000)	(344,200,000)
 Net cash provided by (used for) financing activities	 59,500,062	 (61,236,241)
 <b>Net increase (decrease) in cash equivalents</b>	 23,732,064	 (29,528,751)
<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>\$ 31,291,517</b>	 <b>\$ 42,075,768</b>
<b>Supplemental disclosure of cash flow information and non-cash activity (See Note 5):</b>		
Interest paid	\$ 1,378,858	\$ 966,095
 Dividend reinvested	 \$ 1,515,213	 \$
 Conversion and non-cash exchanges	 \$ 41,353,789	 \$

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****DECEMBER 31, 2012****(Unaudited)**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread</b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value (3)</b>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 135.3%<sup>(1),(2)</sup></b>							
<b>First Lien Secured Debt 43.6%</b>							
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975 <sup>(8)</sup>	14,812,500	\$ 14,268,960	\$ 14,886,563
CEVA Group PLC <sup>(5),(10)</sup>	10/01/2016	Cargo Transport	11.63%		7,500,000	7,362,597	7,706,250
CEVA Group PLC <sup>(5),(10)</sup>	04/01/2018	Cargo Transport	11.50%		1,000,000	990,426	835,000
Columbus International, Inc. <sup>(5), (10)</sup>	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,100,000
Good Sam Enterprises, LLC <sup>(5)</sup>	12/01/2016	Consumer Products	11.50%		12,000,000	11,805,148	12,840,000
Hanley-Wood, L.L.C.	01/13/2017	Other Media	8.00%	L+650 <sup>(8)</sup>	1,748,481	1,748,481	1,748,481
IDQ Holdings, Inc. <sup>(5)</sup>	04/01/2017	Auto Sector	11.50%		11,500,000	11,297,475	12,391,250
Infusystems Holdings, Inc.	11/30/2016	Healthcare, Education and Childcare	13.90%	P+625 <sup>(8)</sup>	11,600,000	11,600,000	11,628,250
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 <sup>(8)</sup>	24,115,645	23,864,998	23,633,332
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950 <sup>(8)</sup>	18,406,250	18,051,726	18,443,063
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.56%	L+225	9,580,405	9,580,405	6,430,847
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675 <sup>(8)</sup>	18,947,387	18,266,234	18,757,913
Kadmon Pharmaceuticals, LLC	04/30/2013	Healthcare, Education and Childcare	15.00%	L+1,300 <sup>(8)</sup>	4,931,494	5,060,413	5,227,384
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,668,999	26,052,632
Penton Media, Inc.	08/01/2014	Other Media	5.00%	L+400 <sup>(8)</sup>	37,774,372	34,457,793	33,209,982
(PIK 1.00%)							
Pre-Paid Legal Services, Inc., Tranche B	12/30/2016	Personal, Food and Miscellaneous Services	11.00%	L+950 <sup>(8)</sup>	40,000,000	39,125,698	40,400,000
Prince Mineral Holding Corp. <sup>(5)</sup>	12/15/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,083,839	14,748,750
Tekelec Global Inc.	01/29/2018	Telecommunications	13.50%	L+1,200 <sup>(8)</sup>	10,625,000	10,347,723	10,837,500
Worley Claims Services, LLC	07/06/2017	Insurance	12.50%	L+1,100 <sup>(8)</sup>	14,796,000	14,796,000	14,722,020
Z Wireless	12/21/2016	Retail	12.50%	L+1,225	14,400,000	14,112,442	14,400,000
(PIK 1.50%)							
<b>Total First Lien Secured Debt</b>						<b>296,489,357</b>	<b>299,999,217</b>

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**Second Lien Secured Debt 27.6%**

American Gilsonite Company <sup>(5)</sup>	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	26,162,000
Brand Energy and Infrastructure Services, Inc.	10/23/2019	Energy / Utilities	11.00%	L+975 <sup>(8)</sup>	23,750,000	23,282,130	23,275,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy / Utilities	12.50%		45,000,000	44,564,415	45,450,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00%	L+700 <sup>(8)</sup>	3,184,219	3,184,222	1,751,320
				(PIK 11.00%)			
Jacobs Entertainment, Inc.	10/29/2019	Hotels, Motels,	13.00%	L+1,175 <sup>(8)</sup>	38,950,000	38,187,667	38,171,000
		Inns and Gaming					
Linc USA GP and Linc Energy Finance (USA), Inc <sup>(5)</sup>	10/31/2017	Oil and Gas	12.50%		11,875,000	11,462,542	11,756,250
Paradigm Management Services, LLC	07/31/2017	Healthcare,	12.50%	L+1,100 <sup>(8)</sup>	20,512,821	20,078,694	20,512,821
		Education and					
		Childcare					
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 <sup>(8)</sup>	2,744,557	2,744,557	2,579,883
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%	L+850 <sup>(8)</sup>	2,297,037	2,297,037	2,067,333
				(PIK 11.50%)			
ROC Finance LLC and ROC Finance 1 Corp.	09/01/2018	Hotels, Motels,	12.13%		16,000,000	15,765,416	18,480,000
		Inns and Gaming					
<b>Total Second Lien Secured Debt</b>						186,966,680	190,205,607

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2012

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par/ Shares	Cost	Fair Value (3)
<b>Subordinated Debt/Corporate Notes 50.9%</b>							
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	\$ 18,565,089	\$ 18,970,545
Affinion Group Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,243,502	22,931,040
Alegeus Technologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,760,960	9,023,409
Convergint Technologies LLC	03/26/2018	Electronics	12.00%		23,337,073.	22,887,488	23,510,830
				(PIK 1.00%)			
Escort, Inc.	06/01/2016	Electronics	14.75%		25,431,515	24,957,852	25,431,515
				(PIK 2.75%)			
Galls, LLC; Quartermaster Inc.	03/31/2017	Distribution	13.00%		21,906,249	21,525,345	21,906,249
				(PIK 2.00%)			
JF Acquisition, LLC	06/30/2017	Distribution	14.00%		17,257,231	16,849,863	17,429,803
				(PIK 2.00%)			
Last Mile Funding Corp.	06/30/2016	Cargo Transport	14.50%		45,888,454	45,027,785	45,888,454
				(PIK 2.50%)			
Learning Care Group (US) Inc.	06/30/2016	Education	15.00%		5,673,547	5,120,749	5,233,847
				(PIK 15.00%)			
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	14,647,038	15,000,000
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	15.02%		17,577,649	17,248,456	16,347,214
				(PIK 3.02%)			
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% <sup>(7)</sup>		12,020,950	11,702,105	12,020,950
TrustHouse Services Group, Inc.	06/03/2019	Beverage, Food, and Tobacco	14.25%		14,947,163	14,703,631	14,947,163
				(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	15,934,353	16,200,000

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Vestcom International, Inc.	06/27/2019	Printing and Publishing	12.00%	46,511,091	45,582,215	46,511,091
<b>Total Subordinated Debt/Corporate Notes</b>					356,501,431	350,352,110
<b>Preferred Equity/Partnership Interests 1.7%<sup>(6)</sup></b>						
AH Holdings, Inc.		Healthcare, Education	6.00%	211	500,000	649,174
		and Childcare				
AHC Mezzanine, LLC		Other Media		7,505	318,896	
Alegeus Technologies Holdings Corp., Series A (Alegeus Technologies, LLC)		Financial Services		949	949,050	1,077,842
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education	8.00%	76,357	765,307	1,036,350
		and Childcare				
CI (IHS) Investment Holdings, LLC <sup>(9)</sup> (Interactive Health Solutions, Inc.)		Healthcare, Education		38,179	382,654	518,175
		and Childcare				
Convergint Technologies Holdings, LLC		Electronics	8.00%	2,375	2,375,000	2,333,216
CT Technologies Holdings, LLC		Business Services	9.00%	326,215	326,215	326,215
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media	8.00%	3,591	24,177	27,054
PAS Tech Holdings, Inc., Series A-1 (PAS Technologies, Inc.)		Aerospace and	8.00%	20,000	1,980,000	297,063
		Defense				
TrustHouse Services Holdings, LLC		Beverage, Food,	12.00%	1,099	984,344	1,138,903
		and Tobacco				
TZ Holdings, L.P., Series A		Insurance		686	685,820	685,820
TZ Holdings, L.P., Series B		Insurance	6.50%	1,312	1,312,006	1,688,174
Verde Parent Holdings, Inc.		Personal	8.00%	1,824,167	1,824,167	1,694,025
		Transportation				
<b>Total Preferred Equity/Partnership Interests</b>					12,427,636	11,472,011

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2012****(Unaudited)**

<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 11.5%</b>							
Acentia, LLC, Class A Units <sup>(12)</sup>		Electronics			1,998	\$ 2,000,000	\$ 1,447,194
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education			753		1,999,384
Alegeus Technologies Holding Corp., Class A, (Alegeus Technologies, LLC)		and Childcare Financial Services			1	950	1,079
Autumn Games, LLC		Broadcasting and			1,333,330	3,000,000	
CI (Galls) Prime Investment Holdings, LLC (Galls, LLC; Quartermaster Inc.) <sup>(11)</sup>		Entertainment Distribution			1,505,000	1,505,000	1,716,728
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education			23,416	234,693	317,829
CI (IHS) Investment Holdings, LLC <sup>(9)</sup> (Interactive Health Solutions, Inc.)		and Childcare Healthcare, Education			11,708	117,346	158,915
Convergint Technologies Holdings, LLC		and Childcare Electronics			2,375		110,420
CT Technologies Holdings, LLC		Business Services			5,556	1,904,036	6,735,771
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media			348,912	2,443,050	2,628,634
Kadmon Holdings, LLC, Class A (Kadmon Pharmaceuticals, LLC)		Healthcare, Education			1,079,920	1,236,832	11,859,821
Kadmon Holdings, LLC, Class D (Kadmon Pharmaceuticals, LLC)		and Childcare Healthcare, Education			1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	and Childcare Education			1,267	779,920	
Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)		Oil and Gas			1,221,932	3,239,999	4,875,509
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	10/14/2013	Oil and Gas			122,193	105,697	8,572
MidOcean JF Holdings Corp. (JF Acquisition, LLC)		Distribution			1,850	1,850,294	1,939,841
MidOcean PPL Holdings, Inc. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services			3,000	3,000,000	3,262,232
Paradigm Acquisition Corp. (Paradigm Management Services, LLC)		Healthcare, Education			20,000	2,000,000	2,236,480
		and Childcare			20,000	20,000	



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PAS Tech Holdings, Inc. (PAS Technologies, Inc.)		Aerospace and Defense			
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media	4,325	1,306,167	1,032,393
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media	531		126,752
Realogy Holdings Corp. (f/k/a Realogy Corp.)		Buildings and Real Estate	417,054	10,929,118	17,499,586
SPG Boyd Holdings Corp. (LTI Flexible Products, Inc.)		Chemical, Plastic  and Rubber	300,000	3,000,000	3,466,167
Titan Private Holdings I, LLC Class A (Tekelec Global, Inc.)		Telecommunications	2,276,847	2,274,883	6,697,628
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	1,116,199
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.		Insurance	2	9,567	129,673
Verde Parent Holdings, Inc.		Personal Transportation	9,166	9,166	
Vestcom Parent Holdings, Inc. (Vestcom International, Inc.)		Printing and Publishing	211,797	2,325,555	2,325,555
VText Holdings, Inc. (Veritext Corp.)		Business Services	35,526	4,050,000	6,668,990
<b>Total Common Equity/Warrants/Partnership Interests</b>				50,512,068	79,390,159
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>				902,897,172	931,419,104

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**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2012****(Unaudited)**

<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>Investments in Non-Controlled, Affiliated Portfolio Companies 13.6%<sup>(1),(2)</sup></b>							
<b>Second Lien Secured Debt 1.1%</b>							
Performance, Inc.	01/16/2015	Leisure, Amusement	7.25%	L+625 <sup>(8)</sup>	8,000,000	\$ 8,000,000	\$ 7,780,000
		Motion Pictures and					
		Entertainment					
<b>Subordinated Debt/Corporate Notes 8.5%</b>							
DirectBuy Holdings, Inc.	11/05/2019	Consumer Products	12.00%		10,472,000	10,472,000	10,472,000
			(PIK 12.00%)				
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement,	15.00% <sup>(7)</sup>		7,567,234	7,442,664	7,567,234
		Motion Pictures and					
		Entertainment					
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%		24,000,000	23,514,474	24,190,344
Service Champ, Inc. <sup>(9)</sup>	10/02/2013	Auto Sector			16,000,000	15,640,000	16,126,896
<b>Total Subordinated Debt/Corporate Notes</b>						<b>57,069,138</b>	<b>58,356,474</b>
<b>Common Equity/Partnership Interest 4.0%<sup>(6)</sup></b>							
DirectBuy Holdings, Inc.		Consumer Products			104,719	21,492,822	
DirectBuy Holdings, Inc. (Warrants)	11/05/2022	Consumer Products			15,486		
EnviroSolutions, Inc.		Environmental Services			137,450	11,413,684	19,971,112
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement,			375,000	3,750,000	2,779,601
		Motion Pictures and					
		Entertainment					
New Service Champ Holdings, Inc. (Service Champ, Inc.)		Auto Sector			16,800	4,200,000	4,784,499
<b>Total Common Equity/Partnership Interest</b>						<b>40,856,506</b>	<b>27,535,212</b>
<b>Total Investments in Non-Controlled, Affiliated Portfolio Companies</b>						<b>105,925,644</b>	<b>93,671,686</b>
<b>Investments in Controlled, Affiliated Portfolio Companies 5.7%<sup>(1),(2)</sup></b>							

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<b>First Lien Secured Debt 1.8%</b>							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% <sup>(7)</sup>	10,400,000	10,400,000	10,767,224	
UP Support Services, Inc. <sup>(9)</sup>	12/31/2015	Oil and Gas		1,916,666	1,749,448	1,916,666	
<b>Total First Lien Secured Debt</b>						12,149,448	12,683,890
<b>Second Lien Secured Debt 2.2%</b>							
UP Support Services, Inc.	12/31/2015	Oil and Gas	15.00%	14,860,377	12,510,232	14,860,377	
(PIK 15.00%)							
<b>Subordinated Debt/Corporate Notes 0.3%</b>							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% <sup>(7)</sup>	2,600,000	2,600,000	2,248,176	
<b>Preferred Equity 1.4%</b>							
SuttonPark Holdings, Inc.		Business Services	14.00%	2,000	2,000,000	1,984,603	
Universal Pegasus International Holdings, Inc. (UP Support Services, Inc.)		Oil and Gas	8.00%	376,988	34,420,613	7,539,759	
<b>Total Preferred Equity</b>						36,420,613	9,524,362
<b>Common Equity 0.0%</b>							
SuttonPark Holdings, Inc.		Business Services		100	100		
<b>Total Investments in Controlled, Affiliated Portfolio Companies</b>						63,680,393	39,316,805
<b>Total Investments 154.6%</b>						1,072,503,209	1,064,407,595
<b>Cash Equivalents 4.5%</b>						31,291,517	31,291,517
<b>Total Investments and Cash Equivalents 159.1%</b>						\$ 1,103,794,726	\$ 1,095,699,112
<b>Liabilities in Excess of Other Assets (59.1%)</b>							(407,196,691)
<b>Net Assets 100.0%</b>							\$ 688,502,421

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**DECEMBER 31, 2012**

**(Unaudited)**

- (1) The provisions of the Investment Company Act of 1940, or 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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**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2012**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par/Shares</b>	<b>Cost</b>	<b>Fair Value <sup>(3)</sup></b>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 130.3%<sup>(1),(2)</sup></b>							
<b>First Lien Secured Debt 41.7%</b>							
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975 <sup>(8)</sup>	14,906,250	\$ 14,332,682	\$ 14,906,250
American Surgical Holdings, Inc.	03/23/2015	Healthcare, Education and	14.00%	L+1,000 <sup>(8)</sup>	17,811,828	17,441,366	17,811,828
		Childcare					
Brand Energy and Infrastructure Services, Inc.	02/07/2014	Energy/Utilities	3.68%	L+325	2,000,000	1,757,029	1,973,334
CEVA Group PLC <sup>(5),(10)</sup>	10/01/2016	Cargo Transport	11.63%		7,500,000	7,355,237	7,687,500
CEVA Group PLC <sup>(5),(10)</sup>	04/01/2018	Cargo Transport	11.50%		1,000,000	990,089	880,000
Columbus International, Inc. <sup>(5),(10)</sup>	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,100,000
Good Sam Enterprises, LLC <sup>(5)</sup>	12/01/2016	Consumer Products	11.50%		12,000,000	11,795,443	12,720,000
Hanley-Wood, L.L.C.	01/13/2017	Other Media	8.00%	L+650 <sup>(8)</sup>	1,752,896	1,752,896	1,752,896
IDQ Holdings, Inc. <sup>(5)</sup>	04/01/2017	Auto Sector	11.50%		11,500,000	11,288,165	12,218,750
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 <sup>(8)</sup>	24,115,645	23,829,738	23,802,142
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and	11.50%	L+950 <sup>(8)</sup>	18,525,000	18,165,492	18,571,313
		Childcare					
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings,	2.28%	L+225	9,598,649	9,598,649	6,371,103
		Housewares and Durable					
		Consumer Products					
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and	10.00%	L+775 <sup>(8)</sup>	18,952,500	18,216,865	19,236,788
		Rubber					
Kadmon Pharmaceuticals, LLC	10/31/2012	Healthcare, Education and	15.00%	L+1,300 <sup>(8)</sup>	4,931,494	4,992,740	5,110,409
		Childcare					
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,640,832	25,857,237
Penton 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%)					
Pre-Paid Legal Services, Inc., Tranche A	12/30/2016	Personal, Food and	7.50%	L+600 <sup>(8)</sup>	1,552,846	1,533,687	1,556,728
		Miscellaneous Services					
Pre-Paid Legal Services, Inc., Tranche 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
Tekelec Global Inc. (First Out)	01/29/2018	Telecommunications	9.00%	L+750 <sup>(8)</sup>	850,000	838,369	850,000
Tekelec Global Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200 <sup>(8)</sup>	10,625,000	10,338,450	10,848,126

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Worley Claims Services, LLC	07/06/2017	Insurance	12.50%	L+1,100 <sup>(8)</sup>	14,934,000	14,934,000	14,859,330
Yonkers Racing Corp. <sup>(5)</sup>	07/15/2016	Hotels, Motels, Inns and	11.38%		4,500,000	4,401,515	4,860,000
Gaming							

**Total First Lien Secured Debt** 277,427,564 278,960,887

**Second Lien Secured Debt 25.3%**

American Gilsonite Company <sup>(5)</sup>	09/01/2017	Diversified Natural Resources,	11.50%		25,400,000	25,400,000	26,098,500
Precious Metals and Minerals							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.33%	L+600	13,600,000	13,378,432	12,729,600
Brand 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), (6)</sup>	02/01/2017	Consumer Products	12.00%		34,000,000	31,964,822	10,880,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy/Utilities	12.50%		45,000,000	44,543,688	45,000,000
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
(PIK 11.00%)							
Paradigm Management Services, LLC	07/31/2017	Healthcare, Education and	12.50%	L+1,100 <sup>(8)</sup>	20,512,821	20,059,979	20,512,821
Childcare							

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**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</b>	<b>Above Index (4)</b>	<b>Par/ Shares</b>	<b>Cost</b>	<b>Fair Value (3)</b>
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%		L+650 (8)	2,752,666	\$ 2,752,666	\$ 2,584,753
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%		L+850 (8)	2,230,508	2,230,508	2,002,996
			(PIK 11.50%)					
Realogy 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	7,411,149
<b>Total Second Lien Secured Debt</b>							188,644,968	169,366,959
<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
			(PIK 1.00%)					
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
			(PIK 2.75%)					
Galls, LLC; Quartermaster Inc.	03/31/2017	Distribution	13.00%			21,797,263	21,399,764	21,906,249
			(PIK 2.00%)					
JF Acquisition, LLC	06/30/2017	Distribution	14.00%			17,171,374	16,748,220	17,377,430
			(PIK 2.00%)					
Last Mile Funding Corp.	06/30/2016	Cargo Transport	14.50%			45,597,139	44,677,474	45,095,570
			(PIK 2.50%)					
Learning Care Group (US) Inc.	06/30/2016	Education	15.00%			5,277,718	4,696,436	4,815,918
			(PIK 15.00%)					

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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
			(PIK 2.00%)			
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	15.02%	17,123,218	16,783,033	17,123,218
			(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
<b>Total Subordinated Debt/Corporate Notes</b>					355,236,902	351,070,859

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<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>Preferred Equity/Partnership Interests 1.7%</b> <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, Inc.)		Aerospace and Defense	8.00%		20,000	1,980,000	823,710
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>						<b>12,101,421</b>	<b>11,178,282</b>
<b>Common Equity/Warrants/Partnership Interests 9.2%</b> <sup>(9)</sup>							
Acentia, LLC, Class A Units <sup>(12)</sup>		Electronics			1,998	2,000,000	1,737,396
AH Holdings, Inc. (Warrants) (American Surgical Holdings, Inc.)	03/23/2021	Healthcare, Education and Childcare			753		2,063,780
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			23,416	234,693	270,457

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	and Childcare			
CI (IHS) Investment Holdings, LLC <sup>(9)</sup> (Interactive Health Solutions, Inc.)	Healthcare, Education	11,708	117,346	
	and Childcare			
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

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>
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
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>						<b>38,457,098</b>	<b>61,315,758</b>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<b>871,867,953</b>	<b>871,892,745</b>
<b>Investments in Non-Controlled, Affiliated Portfolio Companies 12.0%(1),(2)</b>							
<b>Second Lien Secured Debt 1.1%</b>							
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

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**Subordinated Debt/Corporate Notes 7.1%**

Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% <sup>(7)</sup>	7,567,234	7,435,314	7,453,725
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
<b>Total Subordinated Debt/Corporate Notes</b>					46,571,014	47,453,725

**Common Equity/Partnership Interest 3.8%<sup>(6)</sup>**

EnviroSolutions, Inc.		Environmental Services		125,106	10,055,844	18,425,519
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment		375,000	3,750,000	2,902,355
New Service Champ Holdings, Inc. (Service Champ, Inc.)		Auto Sector		16,800	4,200,000	4,501,658
<b>Total Common Equity/Partnership Interest</b>					18,005,844	25,829,532

**Total Investments in Non-Controlled, Affiliated Portfolio Companies** 72,576,858 80,955,257

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>Investments in Controlled, Affiliated Portfolio Companies 5.6%(1),(2)</b>							
<b>First Lien Secured Debt 1.9%</b>							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% (7)		10,800,000	\$ 10,800,000	\$ 10,800,000
UP Support Services, Inc. (9)	12/31/2015	Oil and Gas			743,187	668,632	743,187
UP Support Services, Inc. (9)	12/31/2015	Oil and Gas			1,173,479	1,068,059	1,173,479
<b>Total First Lien Secured Debt</b>						12,536,691	12,716,666
<b>Second Lien Secured Debt 2.1%</b>							
UP Support Services, Inc.	12/31/2015	Oil and Gas	15.00%		14,300,282	11,809,647	14,300,282
(PIK 15.00%)							
<b>Subordinated Debt/Corporate Notes 0.3%</b>							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% (7)		2,700,000	2,700,000	2,158,053
<b>Preferred Equity 1.3%(8)</b>							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	216,947
Universal Pegasus International Holdings, Inc.		Oil and Gas	8.00%		411,988	35,120,613	8,239,760
<b>Total Preferred Equity</b>						37,120,613	8,456,707
<b>Common Equity 0.0%(6)</b>							
SuttonPark Holdings, Inc.		Business Services			100	100	
<b>Total Investments in Controlled, Affiliated Portfolio Companies</b>						64,167,051	37,631,708
<b>Total Investments 147.9%</b>						1,008,611,862	990,479,710
<b>Cash Equivalents 1.1%</b>						7,559,453	7,559,453
<b>Total Investments and Cash Equivalents 149.0%</b>						\$ 1,016,171,315	\$ 998,039,163
<b>Liabilities in Excess of Other Assets (49.0%)</b>							(328,322,116)
<b>Net Assets 100.0%</b>							\$ 669,717,047

(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.

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- (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**

**DECEMBER 31, 2012**

**(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 completed our initial public offering of common stock in 2007 and issued 21.0 million shares raising \$294.1 million in net proceeds. Since our initial public offering, we have sold 44.3 million shares of common stock through follow-on public offerings, resulting in net proceeds of \$448.8 million. On October 25, 2012, we sold an additional 700,000 shares of common stock 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 and offering expenses payable by us from the underwriters' partial exercise of the over-allotment option granted in connection with the offering.

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.

SBIC LP and its general partner, PennantPark SBIC GP, LLC, were organized in Delaware as a limited partnership and a limited liability company, respectively, in May 2010 and began operations in June 2010. SBIC II and its general partner, PennantPark SBIC GP II, LLC, were organized in Delaware as a limited partnership and a limited liability company, respectively, in July 2012 and began operations in December 2012. SBIC LP received a license from the SBA to operate as an SBIC effective July 30, 2010 under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act. Our SBIC Funds are consolidated wholly owned subsidiaries of PennantPark Investment. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally, 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 regulated investment companies, or RICs, under the Internal Revenue Code of 1986, as amended, or 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, if any. References to the Accounting Standards Codification, or ASC, serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

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





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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**DECEMBER 31, 2012**

**(Unaudited)**

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 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 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

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- (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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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**DECEMBER 31, 2012**

**(Unaudited)**

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.

***(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, we have elected to retain a portion of our calendar year income and recorded an excise tax of \$0.1 million for both the three months ended December 31, 2012 and 2011.

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 distributions 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.

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, 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.

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**DECEMBER 31, 2012**

**(Unaudited)**

**3. AGREEMENTS**

PennantPark Investment's Investment Management Agreement with the Investment Adviser was re-approved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2013. Under the Investment Management Agreement the Investment Adviser, subject to the overall supervision of PennantPark Investment's board of directors, manages the day-to-day operations of and provides investment advisory services to, PennantPark Investment. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us, consisting of two components—a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets (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). The base management fee 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 months ended December 31, 2012 and 2011, the Investment Adviser earned a base management fee of \$5.1 million and \$4.0 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 months ended December 31, 2012 and 2011, the Investment Adviser earned a performance based incentive fee on net investment income, as calculated under the Investment Management Agreement, of \$4.5 million and \$3.7 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 months ended December 31, 2012 and 2011, the Investment Adviser did not earn a performance based incentive fee on capital gains as calculated under the Investment Management Agreement.

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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 appreciation will be realized in the future. For the three months ended December 31, 2012 and 2011, the Investment Adviser did not earn a performance based incentive fee on capital gains as calculated under GAAP.

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The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2013. Under this agreement, the Administrator provides administrative services 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 reimburses the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and PennantPark Investment's allocable portion of the costs of 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 months ended December 31, 2012 and 2011, the Investment Adviser and Administrator, collectively, were reimbursed \$0.5 million and \$0.7 million, respectively, from us, including expenses the Investment Adviser incurred 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 months ended December 31, 2012 and 2011, PennantPark Investment was reimbursed \$0.1 million and \$0.2 million, respectively, for the services described above.

**4. INVESTMENTS**

Purchases of long-term investments, including PIK, for the three months ended December 31, 2012 and 2011 totaled \$172.5 million and \$46.1 million, respectively. Sales and repayments of long-term investments for the three months ended December 31, 2012 and 2011 totaled \$110.8 million and \$69.3 million, respectively.

Investments and cash equivalents consisted of the following:

	December 31, 2012		September 30, 2012	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 308,638,805	\$ 312,683,107	\$ 289,964,255	\$ 291,677,553
Second lien	207,476,912	212,845,984	208,454,615	191,339,241
Subordinated debt / corporate notes	416,170,569	410,956,760	404,507,916	400,682,637
Preferred equity	48,848,249	20,996,373	49,222,034	19,634,989
Common equity	91,368,674			