

PENNANTPARK INVESTMENT CORP  
Form 10-Q  
February 04, 2015  
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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 QUARTERLY PERIOD ENDED DECEMBER 31, 2014**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO**

**COMMISSION FILE NUMBER: 814-00736**

**PENNANTPARK INVESTMENT CORPORATION**

**(Exact name of registrant as specified in its charter)**

**MARYLAND**

**20-8250744**

**(State or other jurisdiction of incorporation or organization)**

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

**590 Madison Avenue,**

**15<sup>th</sup> Floor, New York, N.Y.**

**10022**

**(Address of principal executive offices)**

**(Zip Code)**

**(212) 905-1000**

**(Registrant's Telephone Number, Including Area Code)**

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

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

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

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 registrant's common stock, \$0.001 par value per share, outstanding as of February 4, 2015 was 75,092,911.

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**PENNANTPARK INVESTMENT CORPORATION**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED DECEMBER 31, 2014**  
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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, Company, we, our or us refer to PennantPark Investment Corporation and its consolidated subsidiaries unless the context suggests otherwise. PennantPark Investment refers to only PennantPark Investment Corporation; our SBIC Funds refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC LP, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC; SBA refers to the Small Business Administration; SBIC refers to a Small Business Investment Company; Credit Facility refers to our multi-currency, senior secured revolving credit facility; 2025 Notes refers to our 6.25% notes due 2025; 2019 Notes refers to our 4.50% notes due 2019; our Notes refer collectively to our 2025 Notes and our 2019 Notes; BDC refers to a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act; Code refers to the Internal Revenue Code of 1986, as amended; and RIC refers to a regulated investment company under the Code. References to our portfolio or investments include investments we make through our SBIC Funds and other consolidated subsidiaries.

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

|  | December 31, 2014<br>(unaudited) | September 30, 2014      |
|--|----------------------------------|-------------------------|
| <b>Assets</b>  |                                  |                         |
| Investments at fair value  |                                  |                         |
| Non-controlled, non-affiliated investments<br>(cost \$1,241,937,230 and \$1,171,573,359, respectively) | \$ 1,229,810,600                 | \$ 1,212,515,400        |
| Non-controlled, affiliated investments (cost \$108,969,135<br>and \$108,572,406, respectively)         | 70,789,290                       | 67,847,521              |
| Controlled, affiliated investments (cost \$43,661,751 and<br>\$38,708,555, respectively)               | 39,995,228                       | 37,691,845              |
| Total of investments (cost \$1,394,568,116 and<br>\$1,318,854,320, respectively)                       | 1,340,595,118                    | 1,318,054,766           |
| Cash and cash equivalents (cost \$54,401,649 and<br>\$66,600,195, respectively) (See Note 8)           | 54,329,248                       | 66,518,682              |
| Interest receivable  | 12,594,493                       | 13,703,525              |
| Deferred financing costs and other assets  | 13,646,208                       | 13,550,224              |
| <b>Total assets</b>  | <b>\$ 1,421,165,067</b>          | <b>\$ 1,411,827,197</b> |
| <b>Liabilities</b>   |                                  |                         |
| Distributions payable  | \$ 21,026,015                    | \$ 21,026,015           |
| Payable for investments purchased  |                                  | 4,432,500               |
| Unfunded investments   |                                  | 15,607,059              |
| Credit Facility payable (cost \$125,881,500 and \$55,226,300,<br>respectively) (See Notes 5 and 10)    | 122,316,693                      | 53,497,620              |
| SBA debentures payable (cost \$150,000,000) (See Notes 5<br>and 10)                                    | 150,000,000                      | 150,000,000             |
| 2019 Notes payable (cost \$250,000,000) (See Notes 5<br>and 10)  | 250,446,250                      | 251,350,250             |
| 2025 Notes payable (cost \$71,250,000) (See Notes 5 and 10)  | 73,444,500                       | 71,820,000              |
| Management fee payable (See Note 3)  | 6,796,751                        | 6,385,103               |
| Performance-based incentive fee payable (See Note 3)   | 4,869,218                        | 4,622,754               |
| Interest payable on debt   | 6,505,077                        | 1,962,264               |
| Accrued other expenses   | 2,722,323                        | 3,113,683               |
| <b>Total liabilities</b>   | <b>638,126,827</b>               | <b>583,817,248</b>      |

Commitments and contingencies (See Note 11)

**Net assets**

Common stock, 75,092,911 shares issued and outstanding.

Par value \$0.001 per share and 100,000,000 shares authorized.

|  |              |              |
|--|--------------|--------------|
|  | 75,093       | 75,093       |
| Paid-in capital in excess of par value             | 852,465,375  | 852,465,375  |
| Distributions in excess of net investment income   | (13,351,723) | (11,802,580) |
| Accumulated net realized loss on investments       | (3,029,163)  | (11,655,302) |
| Net unrealized depreciation on investments         | (54,045,399) | (881,067)    |
| Net unrealized depreciation (appreciation) on debt | 924,057      | (191,570)    |

|                         |    |             |    |             |
|-------------------------|----|-------------|----|-------------|
| <b>Total net assets</b> | \$ | 783,038,240 | \$ | 828,009,949 |
|-------------------------|----|-------------|----|-------------|

|   |    |               |    |               |
|---|----|---------------|----|---------------|
| <b>Total liabilities and net assets</b> | \$ | 1,421,165,067 | \$ | 1,411,827,197 |
|---|----|---------------|----|---------------|

|                                  |    |       |    |       |
|----------------------------------|----|-------|----|-------|
| <b>Net asset value per share</b> | \$ | 10.43 | \$ | 11.03 |
|----------------------------------|----|-------|----|-------|

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>2014</b>                            | <b>2013</b>          |
| <b>Investment income:</b>   |  |                      |
| From non-controlled, non-affiliated investments:                                    |  |                      |
| Interest  | \$ 34,861,628                          | \$ 28,964,935        |
| Other income  | 1,578,838                              | 2,514,857            |
| From non-controlled, affiliated investments:  |  |                      |
| Interest  | 1,485,410                              | 1,264,610            |
| From controlled, affiliated investments:  |  |                      |
| Interest  | 1,278,796                              | 1,393,454            |
| Other income  |  | 300,833              |
| <b>Total investment income</b>  | <b>39,204,672</b>                      | <b>34,438,689</b>    |
| <b>Expenses:</b>  |  |                      |
| Base management fee (See Note 3)  | 6,796,751                              | 5,747,060            |
| Performance-based incentive fee (See Note 3)  | 4,869,218                              | 4,488,779            |
| Interest and expenses on debt (See Note 10)   | 6,515,331                              | 4,559,523            |
| Administrative services expenses (See Note 3)                                       | 857,064                                | 911,596              |
| Other general and administrative expenses   | 689,436                                | 776,614              |
| <b>Total expenses</b>   | <b>19,727,800</b>                      | <b>16,483,572</b>    |
| <b>Net investment income</b>  | <b>19,476,872</b>                      | <b>17,955,117</b>    |
| <b>Realized and unrealized (loss) gain on investments and debt:</b>                 |  |                      |
| Net realized gain on investments  | 8,626,139                              | 2,659,111            |
| Net change in unrealized (depreciation) appreciation on:                            |  |                      |
| Non-controlled, non-affiliated investments  | (53,059,559)                           | 14,215,508           |
| Non-controlled and controlled, affiliated investments                               | (104,773)                              | 521,217              |
| Debt depreciation (See Notes 5 and 10)  | 1,115,627                              | 4,104,000            |
| <b>Net change in unrealized (depreciation) appreciation on investments and debt</b> | <b>(52,048,705)</b>                    | <b>18,840,725</b>    |
| <b>Net realized and unrealized (loss) gain from investments and debt</b>            | <b>(43,422,566)</b>                    | <b>21,499,836</b>    |
| <b>Net (decrease) increase in net assets resulting from operations</b>              | <b>\$ (23,945,694)</b>                 | <b>\$ 39,454,953</b> |
|   | <b>\$ (0.32)</b>                       | <b>\$ 0.59</b>       |

Net (decrease) increase in net assets resulting from operations per common share (See Note 7)

|  |    |      |    |      |
|--|----|------|----|------|
| Net investment income per common share | \$ | 0.26 | \$ | 0.27 |
|--|----|------|----|------|

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>2014</b>                            | <b>2013</b>         |
| <b>Net (decrease) increase in net assets from operations:</b>          |  |                     |
| Net investment income  | \$ 19,476,872                          | \$ 17,955,117       |
| Net realized gain on investments                                       | 8,626,139                              | 2,659,111           |
| Net change in unrealized (depreciation) appreciation on investments    | (53,164,332)                           | 14,736,725          |
| Net change in debt depreciation  | 1,115,627                              | 4,104,000           |
| <b>Net (decrease) increase in net assets resulting from operations</b> | <b>(23,945,694)</b>                    | <b>39,454,953</b>   |
| <b>Distributions to stockholders:</b>                                  | <b>(21,026,015)</b>                    | <b>(18,633,086)</b> |
| <b>Capital transactions:</b>   |  |                     |
| Reinvestment of distributions  |  | 537,121             |
| <b>Net (decrease) increase in net assets</b>                           | <b>(44,971,709)</b>                    | <b>21,358,988</b>   |
| <b>Net assets:</b>   |  |                     |
| Beginning of period  | 828,009,949                            | 697,506,199         |
| End of period  | \$ 783,038,240                         | \$ 718,865,187      |
| Distributions in excess of net investment income, at end of period     | \$ (13,351,723)                        | \$ (5,353,186)      |
| <b>Capital share activity:</b>   |  |                     |
| Shares issued from reinvestment of dividends                           |  | 47,407              |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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|  | <b>Three Months Ended December 31,</b> |                     |
|--|--|---------------------|
|  | <b>2014</b>                            | <b>2013</b>         |
| <b>Cash flows from operating activities:</b>   |  |                     |
| Net (decrease) increase in net assets resulting from operations  | \$ (23,945,694)                        | \$ 39,454,953       |
| Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used by operating activities: |  |                     |
| Net change in net unrealized depreciation (appreciation) on investments  | 53,164,332                             | (14,736,725)        |
| Net change in unrealized depreciation on debt  | (1,115,627)                            | (4,104,000)         |
| Net realized gain on investments   | (8,626,139)                            | (2,659,111)         |
| Net accretion of discount and amortization of premium  | (1,673,625)                            | (2,254,165)         |
| Purchases of investments   | (158,912,670)                          | (227,964,735)       |
| Payment-in-kind income   | (1,402,599)                            | (2,216,279)         |
| Proceeds from dispositions of investments  | 79,285,499                             | 143,957,646         |
| Decrease in interest receivable  | 1,109,032                              | 2,209,037           |
| Increase in deferred financing costs and other assets  | (95,984)                               | (845,805)           |
| Decrease in payable for investments purchased  | (4,432,500)                            | (38,094,704)        |
| Increase in management fee payable   | 411,648                                | 327,503             |
| Increase in performance-based incentive fee payable  | 246,464                                | 213,898             |
| Increase in interest payable on debt   | 4,542,813                              | 1,439,922           |
| (Decrease) increase in accrued other expenses  | (391,360)                              | 1,218,062           |
| Net cash used by operating activities  | (61,836,410)                           | (104,054,503)       |
| <b>Cash flows from financing activities:</b>   |  |                     |
| Distributions paid to stockholders   | (21,026,015)                           | (18,082,691)        |
| Borrowings under Credit Facility (See Note 10)   | 257,000,000                            | 400,000,000         |
| Repayments under Credit Facility (See Note 10)   | (186,344,800)                          | (305,500,000)       |
| Net cash provided by financing activities  | 49,629,185                             | 76,417,309          |
| <b>Net decrease in cash equivalents</b>  | <b>(12,207,225)</b>                    | <b>(27,637,194)</b> |
| Effect of exchange rate changes on cash  | 17,791                                 |                     |
| <b>Cash and cash equivalents, beginning of period</b>  | <b>66,518,682</b>                      | <b>58,440,829</b>   |

|  |    |            |    |            |
|--|----|------------|----|------------|
| <b>Cash and cash equivalents, end of period</b>          | \$ | 54,329,248 | \$ | 30,803,635 |
| <b>Supplemental disclosure of cash flow information:</b> |    |            |    |            |
| Interest paid  | \$ | 1,834,305  | \$ | 3,007,330  |
| Dividends reinvested                                     | \$ |            | \$ | 537,121    |
| Conversions and non-cash exchanges                       | \$ |            | \$ | 51,577,498 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****DECEMBER 31, 2014****(Unaudited)**

|   | <b>Maturity /<br/>Expiration</b> | <b>Industry</b>  | <b>Current<br/>Coupon</b> | <b>Basis Point<br/>Spread<br/>Above<br/>Index <sup>(4)</sup></b> | <b>Par /<br/>Shares</b> | <b>Co</b>    |
|---|----------------------------------|--|---------------------------|--|-------------------------|--------------|
| <b>Controlled, Non-Affiliated Portfolio Companies 157.0%<sup>(1), (2)</sup></b> |                                  |  |                           |  |                         |              |
| <b>at 50.3%</b>   |                                  |  |                           |  |                         |              |
| Services LLC  | 03/21/2018                       | Communications   | 11.25%                    | L+975  | 23,148,254              | \$ 22,4      |
| gs, Inc.  | 04/02/2018                       | Retail   | 11.92%                    | L+1,175 <sup>(8)</sup>   | 37,893,566              | 37,1         |
| gs, Inc. (Revolver) <sup>(9)</sup>  | 04/02/2018                       | Retail   |                           |  | 7,500,000               |              |
|   | 12/21/2020                       | Hotels, Motels, Inns and Gaming                                | 9.25%                     | L+825  | 5,197,500               | 5,0          |
| s, LLC  | 10/21/2020                       | Consumer Products  | 9.00%                     | L+800  | 4,500,000               | 4,4          |
|   | 03/30/2017                       | Auto Sector  | 11.50%                    |  | 11,500,000              | 11,3         |
|   | 11/30/2016                       | Healthcare, Education and<br>Childcare                         | 12.56%                    | P+931  | 8,000,000               | 8,0          |
| ice Inc.  | 10/16/2017                       | Personal, Food and<br>Miscellaneous Services                   | 10.00%                    | L+850  | 7,777,902               | 7,7          |
| , L.P.  | 08/19/2019                       | Chemicals, Plastics and Rubber                                 | 10.00%                    | L+900  | 22,063,073              | 21,6         |
| Energy Finance (USA), Inc. <sup>(5)</sup>                                       | 10/31/2017                       | Oil and Gas  | 9.63%                     |  | 5,626,850               | 5,6          |
|   | 11/27/2018                       | Insurance  | 12.50%                    | L+1,150  | 47,464,183              | 45,4         |
| Corp. <sup>(5)</sup>  | 12/16/2019                       | Mining, Steel, Iron and Non-<br>Precious Metals                | 11.50%                    |  | 14,250,000              | 14,1         |
| che A   | 07/18/2019                       | Energy and Utilities   | 12.00%                    | L+1,000  | 75,000,000              | 73,5         |
| che B   | 07/20/2015                       | Energy and Utilities   | 15.00%                    | L+1,300  | 27,500,000              | 26,9         |
| Corp.   | 06/18/2019                       | Electronics  | 9.00%                     | L+750  | 13,616,050              | 13,5         |
| Corp. (Revolver)  | 06/18/2019                       | Electronics  | 9.00%                     | L+750  | 423,529                 | 4            |
| Corp. (Revolver) <sup>(9)</sup>   | 06/18/2019                       | Electronics  |                           |  | 2,223,529               |              |
| , Inc.  | 04/21/2017                       | Aerospace and Defense  | 9.00%                     | L+750  | 19,704,549              | 18,7         |
|   | 04/30/2018                       | Business Services  | 12.00%                    | L+1,050  | 23,514,911              | 23,2         |
| <sup>(9)</sup>  | 10/31/2017                       | Business Services  |                           |  | 1,000,000               |              |
| <sup>(2), (13)</sup>  | 02/12/2020                       | Buildings and Real Estate                                      | 11.06%                    | L+1,050 <sup>(8)</sup>   | 26,280,221              | 41,5         |
|   | 05/02/2019                       | Oil and Gas  | 12.00%                    | L+1,150  | 16,032,351              | 15,7         |
| <b>Total Debt</b>   |                                  |  |                           |  |                         | <b>396,8</b> |
| <b>Debt 73.9%</b>   |                                  |  |                           |  |                         |              |
| pany <sup>(5)</sup>   | 09/01/2017                       | Diversified Natural Resources,<br>Precious Metals and Minerals | 11.50%                    |  | 25,400,000              | 25,4         |

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|   |            |  |        |             |            |      |
|---|------------|--|--------|-------------|------------|------|
|   | 12/02/2020 | Financial Services                           | 9.00%  | L+800       | 15,500,000 | 15,2 |
|   | 11/01/2018 | Oil and Gas                                  | 8.75%  | L+750       | 19,700,736 | 19,6 |
| o, LLC                                    | 08/01/2018 | Beverage, Food and Tobacco                   | 10.63% |             | 13,125,000 | 13,1 |
| mpany, LLC                                | 11/04/2021 | Healthcare, Education and<br>Childcare       | 9.75%  | L+875       | 24,700,000 | 24,3 |
| aterials, LLC                             | 04/30/2019 | Building Materials                           | 12.00% | L+1,100     | 55,000,000 | 54,4 |
| aterials, LLC                             | 04/30/2019 | Building Materials                           | 13.00% | L+1,200     | 32,859,973 | 32,2 |
|   |            |  |        | (PIK 1.00%) |            |      |
|   | 09/30/2020 | Distribution                                 | 11.00% | L+1,000     | 41,250,000 | 38,8 |
| ion 100, LLC <sup>(5)</sup>               | 03/01/2017 | Cargo Transport                              |        |             | 3,945,483  | 3,9  |
| , Inc.                                    | 07/31/2019 | Consumer Products                            | 11.00% | L+1,000     | 34,000,000 | 33,3 |
| c.  | 10/29/2019 | Hotels, Motels, Inns and Gaming              | 13.00% | L+1,175     | 38,950,000 | 38,4 |
| c.  | 10/29/2019 | Consumer Products                            | 9.50%  | L+825       | 9,500,000  | 9,3  |
|   | 12/20/2016 | Personal, Food and<br>Miscellaneous Services | 10.50% | L+875       | 33,750,000 | 33,4 |
| Energy Finance (USA), Inc. <sup>(5)</sup> | 10/31/2017 | Oil and Gas                                  | 12.50% |             | 11,875,000 | 11,6 |
| C <sup>(5)</sup>                          | 05/15/2019 | Oil and Gas                                  | 11.75% |             | 45,000,000 | 44,6 |
| C   | 07/07/2021 | Business Services                            | 11.75% | L+1,050     | 41,250,000 | 40,8 |
| Partnership <sup>(10), (13)</sup>         | 12/17/2021 | Hotels, Motels, Inns and Gaming              | 13.00% | L+1,200     | 75,000,000 | 75,0 |
|   | 10/02/2020 | Media  | 9.00%  | L+775       | 21,000,000 | 20,7 |
| Inc.                                      | 07/01/2020 | Personal, Food and<br>Miscellaneous Services | 9.75%  | L+850       | 56,750,000 | 56,0 |

**Red Debt** 590,7

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(Unaudited)

|                                | Maturity /<br>Expiration | Industry                                     | Current<br>Coupon | Basis Point<br>Spread<br>Above<br>Index<br>(4) | Par /<br>Shares | Cost          | Fair |
|--------------------------------|--------------------------|--|-------------------|--|-----------------|---------------|------|
| ed Debt/Corporate Notes        | 22.9%                    |  |                   |  |                 |               |      |
| C                              | 10/02/2017               | Electronics                                  | 14.00%            |  | 19,000,000      | \$ 18,718,484 | \$   |
| oup                            | 09/14/2018               | Consumer Products                            | 14.50             |  | 35,983,184      | 31,684,086    |      |
| c.                             |                          |  | (PIK 14.50%)      |  |                 |               |      |
| estments                       | 08/15/2018               | Consumer Products                            | 13.50%            |  | 15,096,000      | 15,096,000    |      |
|                                | 02/15/2019               | Financial Services                           | 12.00%            |  | 8,930,000       | 8,803,611     |      |
| s, LLC                         |                          |  |                   |  |                 |               |      |
| et, Inc.                       | 10/26/2018               | Personal, Food and Miscellaneous<br>Services | 12.50             |  | 10,666,900      | 10,504,718    |      |
|                                |                          |  | (PIK 1.25%)       |  |                 |               |      |
|                                | 07/01/2019               | Oil and Gas                                  | 8.00%             |  | 9,500,000       | 9,500,000     |      |
| Partners,                      |                          |  |                   |  |                 |               |      |
| on, LLC                        | 06/30/2017               | Distribution                                 |                   | (6)  | 19,973,519      | 19,665,701    |      |
| .                              | 06/15/2017               | Printing and Publishing                      | 14.50%            | (7)  | 15,000,000      | 14,777,412    |      |
| resources,                     | 11/15/2019               | Oil and Gas                                  | 12.00             |  | 14,337,000      | 13,899,525    |      |
|                                |                          |  | (PIK 12.00%)      |  |                 |               |      |
| cts,                           | 12/11/2020               | Electronics                                  | 12.75%            | (7)  | 15,000,000      | 14,810,560    |      |
| ly                             | 04/15/2019               | Other Media                                  | 12.50%            | (7)  | 30,400,000      | 29,888,942    |      |
| LC                             |                          |  |                   |  |                 |               |      |
| gs, Inc.                       | 05/13/2021               | Manufacturing / Basic Industries             | 11.00%            |  | 13,300,000      | 13,036,266    |      |
| ordinated Debt/Corporate Notes |                          |  |                   |  |                 | 200,385,305   | 1    |
| nership                        |                          |  |                   |  |                 |               |      |
| 5% <sup>(6)</sup>              |                          |  |                   |  |                 |               |      |
| s, Inc.                        |                          | Healthcare, Education and Childcare          | 6.00%             |  | 211             | 500,000       |      |

|   |                                     |       |           |                   |
|---|-------------------------------------|-------|-----------|-------------------|
|   | Financial Services                  |       | 949       | 949,050           |
| s<br>rp.                                      |                                     |       |           |                   |
| s, LLC)                                       |                                     |       |           |                   |
| vestment<br>LC                                | Healthcare, Education and Childcare | 8.00% | 76,357    | 765,307           |
| vestment<br>LC <sup>(9)</sup>                 | Healthcare, Education and Childcare |       | 38,179    |                   |
|   | Electronics                         | 8.00% | 2,375     | 2,088,121         |
| s<br>LC<br>LLC<br>oint,                       | Other Media                         | 8.00% | 3,591     |                   |
| ics US,                                       | Consumer Products                   | 8.00% | 3,397     | 3,397,484         |
| tics<br>(c.)                                  |                                     |       |           |                   |
| gs, Inc.                                      | Personal Transportation             | 8.00% | 1,966,667 | 2,251,667         |
| gs, Inc.                                      | Manufacturing / Basic Industries    |       | 1,197     | 1,197,000         |
| <b>Preferred Equity/Partnership Interests</b> |                                     |       |           | <b>11,148,629</b> |

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2014

(Unaudited)

| Investment Name  | Maturity / Expiration | Industry                            | Current Index Coupon <sup>(4)</sup> | Basis Point Spread Above Par / Shares | Cost         | Fair Value <sup>(3)</sup> |
|--|-----------------------|-------------------------------------|-------------------------------------|---------------------------------------|--------------|---------------------------|
| Common Equity/Partnership Interests/Warrants                 |                       | 8.4% <sup>(6)</sup>                 |                                     |                                       |              |                           |
| entia, LLC,<br>s A Units                                     |                       | Electronics                         |                                     | 1,998                                 | \$ 2,000,000 | \$ 847,3                  |
| tion<br>up<br>dings, Inc.,<br>es A<br>(Warrants)             | 12/12/2023            | Consumer Products                   |                                     | 4,798,624                             | 10,265,972   | 8,653,1                   |
| tion<br>up<br>dings, Inc.,<br>es B<br>(Warrants)             | 12/12/2023            | Consumer Products                   |                                     | 9,822,196                             |              |                           |
| Holdings,<br>(Warrants)                                      | 03/23/2021            | Healthcare, Education and Childcare |                                     | 753                                   |              |                           |
| geus<br>hnologies<br>ding Corp.<br>geus<br>hnologies,<br>(C) |                       | Financial Services                  |                                     | 1                                     | 950          | 2                         |
| P LCG<br>dings, Inc.<br>(Warrants)                           | 05/05/2026            | Education                           |                                     | 933                                   | 586,975      | 617,9                     |
| umn<br>nes, LLC  |                       | Broadcasting and Entertainment      |                                     | 1,333,330                             | 3,000,000    |                           |
| dinal<br>istics<br>dings LLC                                 |                       | Cargo Transport                     |                                     | 137,923                               | 2,111,588    |                           |
| ermediate<br>asportation                                     |                       |                                     |                                     |                                       |              |                           |



|                  |            |                                     |           |           |         |
|------------------|------------|-------------------------------------|-----------|-----------|---------|
| (L.L.C.)         |            |                                     |           |           |         |
| (FBM)            |            | Building Materials                  | 207,242   | 2,250,000 | 1,631,5 |
| Buildings, LLC   |            |                                     |           |           |         |
| Foundation       |            |                                     |           |           |         |
| Building         |            |                                     |           |           |         |
| Materials,       |            |                                     |           |           |         |
| (C)              |            |                                     |           |           |         |
| (FBM)            |            | Building Materials                  | 103,621   |           | (309,2  |
| Buildings, LLC   |            |                                     |           |           |         |
| (1)              |            |                                     |           |           |         |
| Foundation       |            |                                     |           |           |         |
| Building         |            |                                     |           |           |         |
| Materials,       |            |                                     |           |           |         |
| (C)              |            |                                     |           |           |         |
| (Galls)          |            | Distribution                        | 1,505,000 | 1,505,000 | 2,260,1 |
| ne               |            |                                     |           |           |         |
| Investment       |            |                                     |           |           |         |
| Buildings, LLC   |            |                                     |           |           |         |
| (IHS)            |            | Healthcare, Education and Childcare | 23,416    | 234,693   | 832,4   |
| Investment       |            |                                     |           |           |         |
| Buildings, LLC   |            |                                     |           |           |         |
| (IHS)            |            | Healthcare, Education and Childcare | 11,708    |           | 298,8   |
| Investment       |            |                                     |           |           |         |
| Buildings, LLC   |            |                                     |           |           |         |
| Verigint         |            | Electronics                         | 2,375     |           | 1,063,4 |
| Technologies     |            |                                     |           |           |         |
| Buildings, LLC   |            |                                     |           |           |         |
| Holdco,          |            | Other Media                         | 388,378   |           | 1,931,3 |
| C (f/k/a Red     |            |                                     |           |           |         |
| nt, LLC)         |            |                                     |           |           |         |
| Cosmetics        |            | Consumer Products                   | 252       | 2,516     | 262,4   |
| Inc.             |            |                                     |           |           |         |
| . Cosmetics      |            |                                     |           |           |         |
| Buildings, Inc.) |            |                                     |           |           |         |
| Common           |            | Healthcare, Education and Childcare | 1,079,920 | 1,236,832 | 8,127,9 |
| Buildings,       |            |                                     |           |           |         |
| C, Class A       |            |                                     |           |           |         |
| Common           |            | Healthcare, Education and Childcare | 1,079,920 | 1,028,807 | 970,8   |
| Buildings,       |            |                                     |           |           |         |
| C, Class D       |            |                                     |           |           |         |
| at ecoserv       |            | Environmental Services              | 1,000,000 | 1,000,000 | 739,5   |
| Invest           |            |                                     |           |           |         |
| Buildings, LLC   |            |                                     |           |           |         |
| ngnum            | 04/16/2016 | Oil and Gas                         | 122,192   | 182,498   | 17,1    |
| Inter            |            |                                     |           |           |         |
| sources          |            |                                     |           |           |         |

|   |            |                                     |           |           |            |
|---|------------|-------------------------------------|-----------|-----------|------------|
| Corporation<br>(warrants) (13)                              |            |                                     |           |           |            |
| Ocean JF<br>Holdings Corp.                                  |            | Distribution                        | 1,850     | 1,850,294 |            |
| Acquisitions,<br>(C)  |            |                                     |           |           |            |
| Ocean PPL<br>Holdings,<br>LLP.                              |            | Personal, Food and Miscellaneous    | 3,000     | 3,000,000 | 6,277,800  |
| Unpaid<br>Professional Services,<br>(D)                     |            | Services                            |           |           |            |
| of Gulf<br>Resources,<br>LLC                                | 05/09/2024 | Oil and Gas                         | 13,500    | 495,000   |            |
| (warrants) (11)   |            |                                     |           |           |            |
| Lot<br>Investment, Inc.                                     | 11/27/2023 | Insurance                           | 62,932    | 1,290,903 | 5,145,800  |
| (warrants)  |            |                                     |           |           |            |
| Edgim<br>Acquisition<br>LLP.                                |            | Healthcare, Education and Childcare | 20,000    | 770,804   | 3,032,400  |
| over<br>Products<br>Holdings,<br>LLC, Class A<br>Units (11) |            | Electronics                         | 1,350,000 | 1,350,000 | 1,406,700  |
| over<br>Products, LLC)                                      |            |                                     |           |           |            |
| over<br>Products<br>Holdings,<br>LLC, Class B<br>Units (11) |            | Electronics                         | 150,000   | 150,000   | 434,900    |
| over<br>Products, LLC)                                      |            |                                     |           |           |            |
| EM Energy<br>Holdings,<br>LLC                               |            | Energy and Utilities                | 828       | 827,922   |            |
| Holdings,<br>LLC  |            | Personal Transportation             | 9,882     | 11,314    |            |
| Holdings,<br>LLC  |            | Manufacturing / Basic Industries    | 1,330     | 133,000   | 133,000    |
| G Boyd<br>Holdings Corp.                                    |            | Chemical, Plastic and Rubber        | 3,000     | 2,419,203 | 11,188,400 |
| AK<br>Acquisition<br>LLP.                                   | 12/29/2019 | Business Services                   | 3,500     | 29,400    | 320,400    |
| (warrants)  |            |                                     |           |           |            |
| atcom<br>Investment<br>LLP.                                 |            | Printing and Publishing             | 211,797   | 793,873   | 4,062,800  |

|  |            |                   |        |               |
|--|------------|-------------------|--------|---------------|
| Buildings, Inc.  |            |                   |        |               |
| Text   |            | Business Services | 35,526 | 4,050,000     |
| Buildings, Inc.  |            |                   |        | 5,016,1       |
| Wireless   | 10/21/2021 | Retail            | 1,736  | 168,799       |
| Buildings, Inc.  |            |                   |        | 924,2         |
| (Warrants)   |            |                   |        |               |
| <b>Total Common Equity/Partnership Interests/Warrants</b>                      |            |                   |        | 42,746,343    |
| <b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b> |            |                   |        | 1,241,937,230 |
|  |            |                   |        | 1,229,810,6   |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2014****(Unaudited)**

|   | <b>Maturity /<br/>Expiration</b> | <b>Industry</b>  | <b>Current<br/>Coupon</b> | <b>Basis Point<br/>Spread<br/>Above<br/>Index <sup>(4)</sup></b> | <b>Par /<br/>Shares</b> | <b>Cost</b> |
|---|----------------------------------|--|---------------------------|--|-------------------------|-------------|
| <b>Controlled, Affiliated Portfolio Companies 9.1%<sup>(1), (2)</sup></b> |                                  |  |                           |  |                         |             |
| <b>Corporate Notes</b>  |                                  |  |                           |  |                         |             |
| Holdings, Inc.  | 12/26/2017                       | Environmental Services                                   | 9.00%                     | L+800  | 9,409,740               | \$ 9,18     |
| <b>Notes 4.8%</b>   |                                  |  |                           |  |                         |             |
|   | 11/05/2019                       | Consumer Products  | 12.00                     |  | 11,981,100              | 11,98       |
|   | 10/02/2017                       | Auto Sector  | (PIK 12.00%)<br>12.50%    |  | 28,000,000              | 27,61       |
| <b>Corporate Notes</b>  |                                  |  |                           |  |                         |             |
|   |                                  | Aerospace and<br>Defense                                 |                           |  | 53,071                  | 20,05       |
| <b>Interest/Warrants 2.4%<sup>(6)</sup></b>                               |                                  |  |                           |  |                         |             |
|   |                                  | Consumer Products  |                           |  | 104,719                 | 21,49       |
|   | 11/05/2022                       | Consumer Products  |                           |  | 15,486                  |             |
|   |                                  | Environmental Services                                   |                           |  | 143,668                 | 11,96       |
|   |                                  | Leisure, Amusement,<br>Motion Pictures and Entertainment |                           |  | 375,000                 | 3,75        |
|   |                                  | Auto Sector  |                           |  | 16,800                  | 2,72        |
|   |                                  | Aerospace and Defense                                    |                           |  | 53,071                  | 20          |
| <b>Partnership Interests/Warrants</b>                                     |                                  |  |                           |  |                         |             |
| <b>Controlled, Affiliated Portfolio Companies</b>                         |                                  |  |                           |  |                         |             |
| <b>Affiliated Portfolio Companies 5.1%<sup>(1), (2)</sup></b>             |                                  |  |                           |  |                         |             |

|  |            |                   |                       |         |            |             |
|--|------------|-------------------|-----------------------|---------|------------|-------------|
|  | 12/31/2018 | Media             | 13.50%                | L+1,250 | 23,850,000 | 21,55       |
| 9)                                       | 12/31/2018 | Media             |                       |         | 1,150,000  | (10         |
|  | 06/30/2020 | Business Services | 14.00% <sup>(7)</sup> |         | 9,250,000  | 9,25        |
|  |            |                   |                       |         |            | 30,70       |
| <b>Notes 0.3%</b>                        |            |                   |                       |         |            |             |
|  | 6/30/2020  | Business Services | 14.00% <sup>(7)</sup> |         | 2,250,000  | 2,25        |
|  |            | Business Services | 14.00%                |         | 8,500      | 8,50        |
|  |            | Media             |                       |         | 4,750      | 2,21        |
| ngs, Inc.                                |            | Business Services |                       |         | 100        |             |
| )  |            |                   |                       |         |            | 2,21        |
| <b>d, Affiliated Portfolio Companies</b> |            |                   |                       |         |            | 43,66       |
|  |            |                   |                       |         |            | 1,394,56    |
| <b>9%</b>                                |            |                   |                       |         |            |             |
| mp Cash, Institutional Shares            |            |                   |                       |         |            | 7,89        |
| Cash                                     |            |                   |                       |         |            | 46,50       |
| <b>nts</b>                               |            |                   |                       |         |            | 54,40       |
| <b>quivalents 178.1%</b>                 |            |                   |                       |         |            | \$ 1,448,96 |
| <b>Assets (78.1%)</b>                    |            |                   |                       |         |            |             |

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**DECEMBER 31, 2014**

**(Unaudited)**

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities (see Note 6).
- (3) Valued based on our accounting policy (see Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR, or L or Prime, or P rate. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is payable in cash and/or PIK.
- (8) Coupon is not subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (10) Non-U.S. company or principal place of business outside the U.S.
- (11) Investment is held through a consolidated taxable subsidiary (See Note 1).
- (12) Par amount is denominated in British Pounds.
- (13) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2014**

| <b>Issuer Name</b>   | <b>Maturity /<br/>Expiration</b> | <b>Industry</b>  | <b>Current<br/>Coupon</b> | <b>Basic<br/>Sp<br/>Al<br/>Ind</b> |
|--|----------------------------------|--|---------------------------|------------------------------------|
| <b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 146.4%<sup>(1), (2)</sup></b> |                                  |  |                           |                                    |
| <b>First Lien Secured Debt 52.4%</b>   |                                  |  |                           |                                    |
| Aircell Business Aviation Services LLC   | 03/21/2018                       | Communications   | 11.25%                    | D                                  |
| AKA Diversified Holdings, Inc.   | 04/02/2018                       | Retail   | 11.92%                    | L+                                 |
| AKA Diversified Holdings, Inc. <sup>(9)</sup>  | 04/02/2018                       | Retail   |                           |                                    |
| AP Gaming I, LLC   | 12/21/2020                       | Hotels, Motels, Inns and Gaming                                | 9.25%                     | D                                  |
| Hollander Sleep Products, LLC  | 10/20/2020                       | Consumer Products  | 9.00%                     | D                                  |
| IDQ Holdings, Inc. <sup>(5)</sup>  | 03/30/2017                       | Auto Sector  | 11.50%                    |                                    |
| InfuSystem Holdings, Inc.  | 11/30/2016                       | Healthcare, Education and<br>Childcare                         | 13.16%                    | D                                  |
| Jackson Hewitt Tax Service Inc.  | 10/16/2017                       | Personal, Food and Miscellaneous<br>Services                   | 10.00%                    | D                                  |
| K2 Pure Solutions NoCal, L.P.  | 08/19/2019                       | Chemicals, Plastics and Rubber                                 | 10.00%                    | D                                  |
| Linc USA GP and Linc Energy Finance (USA), Inc. <sup>(5)</sup>                                     | 10/31/2017                       | Oil and Gas  | 9.63%                     |                                    |
| Patriot National, Inc.<br>(f/k/a Old Guard Risk Services, Inc.)                                    | 11/27/2018                       | Insurance  | 12.50%                    | L+                                 |
| Prince Mineral Holding Corp. <sup>(5)</sup>  | 12/16/2019                       | Mining, Steel, Iron and<br>Non-Precious Metals                 | 11.50%                    |                                    |
| RAM Energy LLC, Tranche A  | 07/18/2019                       | Energy and Utilities   | 12.00%                    | L+                                 |
| RAM Energy LLC, Tranche B  | 07/20/2015                       | Energy and Utilities   | 15.00%                    | L+                                 |
| Robertshaw US Holding Corp.<br>(f/k/a Fox US Bidco Corp.)  | 06/18/2019                       | Electronics  | 9.00%                     | D                                  |
| Robertshaw US Holding Corp.<br>(f/k/a Fox US Bidco Corp.) <sup>(9)</sup>                           | 06/18/2019                       | Electronics  |                           |                                    |
| Sotera Defense Solutions, Inc.   | 04/21/2017                       | Aerospace and Defense  | 9.00%                     | D                                  |
| TRAK Acquisition Corp.   | 04/30/2018                       | Business Services  | 12.00%                    | L+                                 |
| TRAK Acquisition Corp. <sup>(9)</sup>  | 10/31/2017                       | Business Services  |                           |                                    |
| Trust Inns Limited <sup>(10), (12)</sup>   | 02/12/2020                       | Buildings and Real Estate                                      | 11.06%                    | L+                                 |
| U.S. Well Services, LLC  | 05/02/2019                       | Oil and Gas  | 12.00%                    | L+                                 |
| Worley Claims Services, LLC  | 07/06/2017                       | Insurance  | 12.50%                    | L+                                 |
| <b>Total First Lien Secured Debt</b>   |                                  |  |                           |                                    |
| <b>Second Lien Secured Debt 58.5%</b>  |                                  |  |                           |                                    |
| American Gilsonite Company <sup>(5)</sup>  | 09/01/2017                       | Diversified Natural Resources,<br>Precious Metals and Minerals | 11.50%                    |                                    |



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|  |            |  |                |    |
|--|------------|--|----------------|----|
| Ascensus, Inc.   | 12/02/2020 | Financial Services                           | 9.00%          | I  |
| Bennu Oil & Gas, LLC   | 11/01/2018 | Oil and Gas                                  | 8.75%          | I  |
| Carolina Beverage Group, LLC                                   | 08/01/2018 | Beverage, Food and Tobacco                   | 10.63%         |    |
| CT Technologies Intermediate Holdings, Inc.                    | 10/05/2020 | Business Services                            | 9.25%          | I  |
| Envision Acquisition Company, LLC                              | 11/04/2021 | Healthcare, Education and<br>Childcare       | 9.75%          | I  |
| Foundation Building Materials, LLC                             | 04/30/2019 | Building Materials                           | 12.00%         | L+ |
| Foundation Building Materials, LLC                             | 04/30/2019 | Building Materials                           | 13.00%         | L+ |
|  |            |  | (PIK 1.00%)    |    |
| Intermediate Transportation 100, LLC <sup>(5)</sup>            | 03/01/2017 | Cargo Transport                              | <sup>(6)</sup> |    |
| J.A. Cosmetics Holdings, Inc.                                  | 07/31/2019 | Consumer Products                            | 11.00%         | L+ |
| Jacobs Entertainment, Inc.                                     | 10/29/2019 | Hotels, Motels, Inns and Gaming              | 13.00%         | L+ |
| KIK Custom Products Inc.                                       | 10/29/2019 | Consumer Products                            | 9.50%          | I  |
|  |            | Personal, Food and Miscellaneous             |                |    |
| Language Line, LLC   | 12/20/2016 | Services                                     | 10.50%         | I  |
| Linc USA GP and Linc Energy Finance (USA), Inc. <sup>(5)</sup> | 10/31/2017 | Oil and Gas                                  | 12.50%         |    |
| New Gulf Resources, LLC <sup>(5)</sup>                         | 05/15/2019 | Oil and Gas                                  | 11.75%         |    |
| Novitex Acquisition, LLC                                       | 07/07/2021 | Business Services                            | 11.75%         | L+ |
| Penton Media, Inc.   | 10/02/2020 | Media  | 9.00%          | I  |
| Pre-Paid Legal Services, Inc.                                  | 07/01/2020 | Personal, Food and Miscellaneous<br>Services | 9.75%          | I  |

**Total Second Lien Secured Debt**

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

| Issuer Name  | Maturity /<br>Expiration | Industry                                     | Current<br>Coupon     | Basis Point<br>Spread<br>Above<br>Index<br>(4) | Par /<br>Shares | Cost          | Fair Value    |
|--|--------------------------|--|-----------------------|--|-----------------|---------------|---------------|
| <b>Subordinated Debt/Corporate Notes</b>               |                          |  | <b>24.8%</b>          |  |                 |               |               |
| Acentia, LLC   | 10/02/2017               | Electronics                                  | 14.00%                |  | 19,000,000      | \$ 18,697,637 | \$ 19,000,000 |
| Affinion Group<br>Holdings, Inc. (5)                   | 09/14/2018               | Consumer Products                            | 14.50                 |  | 35,983,184      | 31,471,438    | 30,500,000    |
|  |                          |  | (PIK 14.50%)          |  |                 |               |               |
| Affinion Investments<br>LLC (5)                        | 08/15/2018               | Consumer Products                            | 13.50%                |  | 15,096,000      | 15,096,000    | 14,000,000    |
| Alegeus<br>Technologies, LLC                           | 02/15/2019               | Financial Services                           | 12.00%                |  | 8,930,000       | 8,795,450     | 8,930,000     |
| Convergint<br>Technologies LLC                         | 03/26/2018               | Electronics                                  | 12.00                 |  | 23,753,813      | 23,422,959    | 23,900,000    |
|  |                          |  | (PIK 1.00%)           |  |                 |               |               |
| Credit Infonet, Inc.                                   | 10/26/2018               | Personal, Food and<br>Miscellaneous Services | 12.50                 |  | 10,633,397      | 10,462,892    | 10,633,397    |
|  |                          |  | (PIK 1.25%)           |  |                 |               |               |
| Energy &<br>Exploration Partners,<br>Inc.              | 07/01/2019               | Oil and Gas                                  | 8.00%                 |  | 9,500,000       | 9,500,000     | 9,500,000     |
| JF Acquisition, LLC                                    | 06/30/2017               | Distribution                                 | 14.00                 |  | 19,874,148      | 19,543,873    | 17,800,000    |
|  |                          |  | (PIK 2.00%)           |  |                 |               |               |
| MSPark, Inc.   | 06/15/2017               | Printing and Publishing                      | 14.50% <sup>(7)</sup> |  | 15,000,000      | 14,758,098    | 15,000,000    |
| New Gulf Resources,<br>LLC (5)                         | 11/15/2019               | Oil and Gas                                  | 12.00                 |  | 13,500,000      | 13,040,004    | 10,000,000    |
|  |                          |  | (PIK 12.00%)          |  |                 |               |               |
| Power Products,<br>LLC                                 | 12/11/2020               | Electronics                                  | 12.75% <sup>(7)</sup> |  | 15,000,000      | 14,793,246    | 15,000,000    |
| Randall-Reilly<br>Publishing<br>Company, LLC           | 04/15/2019               | Other Media                                  | 12.50% <sup>(7)</sup> |  | 30,400,000      | 29,860,100    | 30,700,000    |
| <b>Total Subordinated<br/>Debt/Corporate<br/>Notes</b> |                          |  |                       |  |                 | 209,441,697   | 205,000,000   |

**Preferred Equity/Partnership Interests 1.6%**

|   |  |       |           |            |      |
|---|--|-------|-----------|------------|------|
| AH Holdings, Inc.   | Healthcare, Education and<br>Childcare | 6.00% | 211       | 500,000    |      |
| AHC Mezzanine,<br>LLC   | Other Media                            |       | 7,505     | 318,896    |      |
| Alegeus<br>Technologies<br>Holdings Corp.<br>(Alegeus<br>Technologies, LLC)     | Financial Services                     |       | 949       | 949,050    | 4    |
| CI (IHS) Investment<br>Holdings, LLC  | Healthcare, Education and<br>Childcare | 8.00% | 76,357    | 765,307    | 2,3  |
| CI (IHS) Investment<br>Holdings, LLC <sup>(9)</sup>                             | Healthcare, Education and<br>Childcare |       | 38,179    | 382,654    | 1,3  |
| Convergint<br>Technologies<br>Holdings, LLC<br>(Convergint<br>Technologies LLC) | Electronics                            | 8.00% | 2,375     | 2,375,000  | 2,7  |
| J.A. Cosmetics US,<br>Inc.<br>(J.A. Cosmetics<br>Holdings, Inc.)                | Consumer Products                      | 8.00% | 3,397     | 3,397,484  | 3,5  |
| Red Point, LLC  | Other Media                            | 8.00% | 3,591     | 21,727     |      |
| Ride Holdings, Inc.   | Personal Transportation                | 8.00% | 1,966,667 | 2,251,667  | 7    |
| TZ Holdings, L.P.,<br>Series A  | Insurance                              |       | 686       | 685,820    | 6    |
| TZ Holdings, L.P.,<br>Series B  | Insurance                              | 6.50% | 1,312     | 1,312,006  | 1,7  |
| <b>Total Preferred<br/>Equity/Partnership<br/>Interests</b>                     |  |       |           | 12,959,611 | 13,3 |

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

| Issuer Name   | Maturity /<br>Expiration | Industry                               | Current<br>Coupon | Basis Point<br>Spread<br>Above<br>Index | Par /<br>Shares |
|---|--------------------------|--|-------------------|---|-----------------|
| <b>Common Equity/Partnership Interests/Warrants 9.1%<sup>(6)</sup></b>  |                          |  |                   |   |                 |
| Acentia, LLC, Class A Units <sup>(11)</sup>   |                          | Electronics                            |                   |   | 1,998 \$        |
| Affinion Group Holdings, Inc., Series A<br>(Warrants)   | 12/12/2023               | Consumer Products                      |                   |   | 4,798,624       |
| Affinion Group Holdings, Inc., Series B<br>(Warrants)   | 12/12/2023               | Consumer Products                      |                   |   | 9,822,196       |
| AH Holdings, Inc. (Warrants)  | 03/23/2021               | Healthcare, Education and<br>Childcare |                   |   | 753             |
| Alegeus Technologies Holding Corp.<br>(Alegeus Technologies, LLC)   |                          | Financial Services                     |                   |   | 1               |
| ASP LCG Holdings, Inc. (Warrants)   | 05/05/2026               | Education                              |                   |   | 933             |
| Autumn Games, LLC   |                          | Broadcasting and Entertainment         |                   |   | 1,333,333       |
| Cardinal Logistics Holdings LLC <sup>(11)</sup><br>(f/k/a Transportation 100 Holdco, L.L.C.)<br>(Intermediate Transportation 100, L.L.C.) |                          | Cargo Transport                        |                   |   | 137,923         |
| CI (FBM) Holdings, LLC <sup>(11)</sup><br>(Foundation Building Materials, LLC)  |                          | Building Materials                     |                   |   | 207,242         |
| CI (FBM) Holdings, LLC <sup>(9), (11)</sup><br>(Foundation Building Materials, LLC)   |                          | Building Materials                     |                   |   | 103,621         |
| CI (Galls) Prime Investment Holdings, LLC <sup>(11)</sup>   |                          | Distribution                           |                   |   | 1,505,000       |
| CI (IHS) Investment Holdings, LLC   |                          | Healthcare, Education and<br>Childcare |                   |   | 23,416          |
| CI (IHS) Investment Holdings, LLC <sup>(9)</sup>  |                          | Healthcare, Education and<br>Childcare |                   |   | 11,708          |
| Convergint Technologies Holdings, LLC<br>(Convergint Technologies LLC)  |                          | Electronics                            |                   |   | 2,375           |
| CT Technologies Holdings, LLC<br>(CT Technologies Intermediate Holdings, Inc.)  |                          | Business Services                      |                   |   | 5,556           |
| J.A. Cosmetics US, Inc.<br>(J.A. Cosmetics Holdings, Inc.)  |                          | Consumer Products                      |                   |   | 252             |
| Kadmon Holdings, LLC, Class A   |                          | Healthcare, Education and<br>Childcare |                   |   | 1,079,920       |
| Kadmon Holdings, LLC, Class D   |                          | Healthcare, Education and<br>Childcare |                   |   | 1,079,920       |
| Lariat ecoserv Co-Invest Holdings, LLC <sup>(11)</sup>  |                          | Environmental Services                 |                   |   | 1,000,000       |

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|   |            |  |             |
|---|------------|--|-------------|
| Magnum Hunter Resources Corporation<br>(Warrants)                                       | 04/16/2016 | Oil and Gas                                  | 122,192     |
| MidOcean JF Holdings Corp.<br>(JF Acquisitions, LLC)                                    |            | Distribution                                 | 1,850       |
| MidOcean PPL Holdings, Corp.<br>(Pre-Paid Legal Services, Inc.)                         |            | Personal, Food and Miscellaneous<br>Services | 3,000       |
| New Gulf Resources, LLC <sup>(11)</sup> (Warrants)                                      | 05/09/2024 | Oil and Gas                                  | 13,500      |
| Patriot National, Inc.<br>(f/k/a Old Guard Risk Services, Inc.) (Warrants)              | 11/27/2023 | Insurance                                    | 62,932      |
| Paradigm Acquisition Corp.  |            | Healthcare, Education and<br>Childcare       | 20,000      |
| Power Products Holdings, LLC, Class A Units<br><sup>(11)</sup><br>(Power Products, LLC) |            | Electronics                                  | 1,350,000   |
| Power Products Holdings, LLC, Class B Units<br><sup>(11)</sup><br>(Power Products, LLC) |            | Electronics                                  | 150,000     |
| RAM Energy LLC  |            | Energy and Utilities                         | 828         |
| Red Point, LLC  |            | Other Media                                  | 388,378     |
| Ride Holdings, Inc.   |            | Personal Transportation                      | 9,882       |
| SPG Boyd Holdings Corp.   |            | Chemical, Plastic and Rubber                 | 3,000       |
| TRAK Acquisition Corp. (Warrants)   | 12/29/2019 | Business Services                            | 3,500       |
| TZ Holdings, L.P.   |            | Insurance                                    | 2           |
| Vestcom Parent Holdings, Inc.   |            | Printing and Publishing                      | 211,797     |
| VText Holdings, Inc.  |            | Business Services                            | 35,526      |
| Z Wireless Holdings, Inc. (Warrants)  | 10/21/2021 | Retail                                       | 1,736       |
| <b>Total Common Equity/Partnership Interests/Warrants</b>                               |            |  | <b>4</b>    |
| <b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>          |            |  | <b>1,17</b> |

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

| Issuer Name   | Maturity /<br>Expiration | Industry   | Current<br>Coupon | Basis Po<br>Spread<br>Above<br>Index ( |
|---|--------------------------|--|-------------------|--|
| <b>Investments in Non-Controlled, Affiliated Portfolio Companies 8.2%</b> <sup>(1), (2)</sup> |                          |  |                   |  |
| <b>Second Lien Secured Debt 1.1%</b>  |                          |  |                   |  |
| EnviroSolutions Real Property Holdings, Inc.  | 12/26/2017               | Environmental Services                                   | 9.00%             | L+80                                   |
| <b>Subordinated Debt/Corporate Notes 4.8%</b>   |                          |  |                   |  |
| DirectBuy Holdings, Inc.  | 11/05/2019               | Consumer Products  | 12.00             |  |
|   |                          |  | (PIK 12.00%)      |  |
| Service Champ, Inc.   | 10/02/2017               | Auto Sector  | 12.50%            |  |
| <b>Total Subordinated Debt/Corporate Notes</b>  |                          |  |                   |  |
| <b>Preferred Equity 0.2%</b> <sup>(6)</sup>   |                          |  |                   |  |
| PAS International Holdings, Inc.  |                          | Aerospace and<br>Defense                                 |                   |  |
| <b>Common Equity/Partnership Interests/Warrants 2.1%</b> <sup>(6)</sup>                       |                          |  |                   |  |
| DirectBuy Holdings, Inc.  |                          | Consumer Products  |                   |  |
| DirectBuy Holdings, Inc. (Warrants)   | 11/05/2022               | Consumer Products  |                   |  |
| EnviroSolutions Holdings, Inc.<br>(EnviroSolutions Real Property Holdings, Inc.)              |                          | Environmental Services                                   |                   |  |
| NCP-Performance, L.P.   |                          | Leisure, Amusement,<br>Motion Pictures and Entertainment |                   |  |
| New Service Champ Holdings, Inc.<br>(Service Champ, Inc.)                                     |                          | Auto Sector  |                   |  |
| PAS International Holdings, Inc.  |                          | Aerospace and Defense                                    |                   |  |
| <b>Total Common Equity/Partnership Interests/Warrants</b>                                     |                          |  |                   |  |
| <b>Total Investments in Non-Controlled, Affiliated Portfolio Companies</b>                    |                          |  |                   |  |
| <b>Investments in Controlled, Affiliated Portfolio Companies 4.6%</b> <sup>(1), (2)</sup>     |                          |  |                   |  |
| <b>First Lien Secured Debt 3.8%</b>   |                          |  |                   |  |
| Superior Digital Displays, LLC  | 12/31/2018               | Media  | 13.50%            | L+1,25                                 |

|   |            |                   |                       |
|---|------------|-------------------|-----------------------|
| Superior Digital Displays, LLC <sup>(9)</sup> | 12/31/2018 | Media             |                       |
| SuttonPark Holdings, Inc.                     | 06/30/2020 | Business Services | 14.00% <sup>(7)</sup> |

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

|                           |           |                   |                       |
|---------------------------|-----------|-------------------|-----------------------|
| SuttonPark Holdings, Inc. | 6/30/2020 | Business Services | 14.00% <sup>(7)</sup> |
|---------------------------|-----------|-------------------|-----------------------|

**Preferred Equity 0.3%<sup>(6)</sup>**

|                           |  |                   |        |
|---------------------------|--|-------------------|--------|
| SuttonPark Holdings, Inc. |  | Business Services | 14.00% |
|---------------------------|--|-------------------|--------|

**Common Equity 0.2%<sup>(6)</sup>**

|  |  |                   |  |
|--|--|-------------------|--|
| Superior Digital Displays Holdings, Inc.<br>(Superior Digital Displays, LLC) |  | Media             |  |
| SuttonPark Holdings, Inc.  |  | Business Services |  |

**Total Common Equity****Total Investments in Controlled, Affiliated Portfolio Companies****Total Investments 159.2%****Cash and Cash Equivalents 8.0%**

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

**Total Cash and Cash Equivalents****Total Investments and Cash Equivalents 167.2%****Liabilities in Excess of Other Assets (67.2%)****Net Assets 100.0%**

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities (see Note 6).
- (3) Valued based on our accounting policy (see Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, or L or Prime, or P rate. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (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 not subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (10) Non-U.S. company or principal place of business outside the U.S.
- (11) Investment is held through a consolidated taxable subsidiary (See Note 1).
- (12) Par amount is denominated in British Pounds.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

**(Unaudited)**

**1. ORGANIZATION**

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

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

Our wholly owned subsidiaries, SBIC LP and SBIC II, were organized as Delaware limited partnerships in 2010 and 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. 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. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements, have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We 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.

Our Consolidated Financial Statements are prepared in accordance with GAAP, consistent with ASC 946, and pursuant to the requirements for reporting on Form 10-K/Q and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

Our significant accounting policies consistently applied are as follows:

**(a) Investment Valuations**

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

Our portfolio generally consists of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

recommendations of the independent valuation firms to reflect any comments; and

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

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**DECEMBER 31, 2014**

**(Unaudited)**

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

***(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 prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments, our Credit Facility, our Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

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

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

***(c) Income Taxes***

We have complied with the requirements of Subchapter M of the Code and expect to be subject to taxation as a RIC. As a result, we account for income taxes using the asset liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon PennantPark Investment's qualification and election to be subject to taxation as a RIC, we do not anticipate paying any material level of federal income taxes in the future. Although we are not subject to federal income taxes as a RIC, we may elect to retain a portion of our calendar year income. We accrued no taxes for either the three months ended December 31, 2014 or 2013.

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 2011 remain subject to examination by the Internal Revenue Service.

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

***(d) Distributions and Capital Transactions***

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

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

***(e) Foreign Currency Translation***

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

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

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

Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency

fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices to be more volatile than those of comparable U.S. companies or U.S. government securities.

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**DECEMBER 31, 2014**

**(Unaudited)**

***(f) Consolidation***

As permitted under Regulation S-X and as explained by ASC 946-810-45, PennantPark Investment will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we have consolidated the results of our SBIC Funds and our Taxable Subsidiaries in our Consolidated Financial Statements.

**3. AGREEMENTS**

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2015. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to PennantPark Investment. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us, consisting of two components—a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets, which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded investments, 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 months ended December 31, 2014 and 2013, the Investment Adviser earned base management fees of \$6.8 million and \$5.7 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, dividend income and any other income, including any other fees other than fees for providing managerial assistance, such as amendment, commitment, origination, prepayment penalties, 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 a 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, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the three months ended December 31, 2014 and 2013, the Investment Adviser earned \$4.9 million and \$4.5 million, respectively, in incentive fees on net investment income from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For each of the three months ended December 31, 2014 and 2013, the Investment Adviser did not earn an incentive fee on capital gains as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments and foreign currencies held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For each of the three months ended December 31, 2014 and 2013, the Investment Adviser did not accrue an incentive fee on capital gains as calculated under GAAP.

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2015. 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 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 each of the three months ended December 31, 2014 and 2013, the Investment Adviser was reimbursed \$0.7 million and \$0.5 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for the services described above.





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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 each of the three months ended December 31, 2014 and 2013, PennantPark Investment was reimbursed \$0.1 million for the services described above.

**4. INVESTMENTS**

Purchases of investments, including PIK interest, for the three months ended December 31, 2014 and 2013 totaled \$160.3 million and \$230.2 million, respectively. Sales and repayments of investments for the same periods totaled \$79.3 million and \$144.0 million, respectively.

Investments and cash equivalents consisted of the following:

| <b>Investment Classification</b>                | <b>December 31, 2014</b> |                   | <b>September 30, 2014</b> |                   |
|---|--------------------------|-------------------|---------------------------|-------------------|
|   | <b>Cost</b>              | <b>Fair Value</b> | <b>Cost</b>               | <b>Fair Value</b> |
| First lien                                      | \$ 427,584,902           | \$ 422,952,337    | \$ 453,835,589            | \$ 465,593,894    |
| Second lien                                     | 599,955,828              | 587,991,524       | 489,813,322               | 493,360,024       |
| Subordinated debt /<br>corporate notes          | 242,234,230              | 218,901,375       | 250,905,632               | 247,146,967       |
| Equity and partnership<br>interests             | 124,793,156              | 110,749,882       | 124,299,777               | 111,953,881       |
| Total investments                               | 1,394,568,116            | 1,340,595,118     | 1,318,854,320             | 1,318,054,766     |
| Cash and cash equivalents                       | 54,401,649               | 54,329,248        | 66,600,195                | 66,518,682        |
| Total investments, cash<br>and cash equivalents | \$ 1,448,969,765         | \$ 1,394,924,366  | \$ 1,385,454,515          | \$ 1,384,573,448  |

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash equivalents) in such industries as of:

| <b>Industry Classification</b>                              | <b>December 31, 2014</b> | <b>September 30, 2014</b> |
|---|--------------------------|---------------------------|
| Hotels, Motels, Inns and Gaming                             | 9%                       | 3%                        |
| Personal, Food and Miscellaneous Services                   | 9                        | 9                         |
| Consumer Products   | 8                        | 9                         |
| Buildings Materials   | 7                        | 6                         |
| Business Services   | 7                        | 8                         |
| Energy/Utilities  | 7                        | 8                         |
| Oil and Gas   | 7                        | 9                         |
| Distribution  | 4                        | 2                         |
| Electronics   | 4                        | 6                         |
| Healthcare, Education and Childcare                         | 4                        | 4                         |
| Insurance   | 4                        | 5                         |
| Auto Sector   | 3                        | 4                         |
| Buildings and Real Estate                                   | 3                        | 3                         |
| Media   | 3                        | 3                         |
| Retail  | 3                        | 4                         |
| Aerospace and Defense                                       | 2                        | 1                         |
| Chemicals, Plastics and Rubber                              | 2                        | 2                         |
| Communication   | 2                        | 2                         |
| Diversified Natural Resources, Precious Metals and Minerals | 2                        | 2                         |
| Environmental Services                                      | 2                        | 2                         |
| Financial Services  | 2                        | 2                         |
| Other Media   | 2                        | 3                         |
| Other   | 4                        | 3                         |
| Total   | 100%                     | 100%                      |

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**DECEMBER 31, 2014**

**(Unaudited)**

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments, our 2019 Notes and Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material. A review of fair value hierarchy classifications is conducted on a quarterly basis.

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

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

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the three months ended December 31, 2014 and 2013, our ability to observe valuation inputs has resulted in one reclassification from Level 2 to 3 and no reclassification of assets between levels, respectively.

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

As outlined in the table below, some of our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids include a disclaimer, have no corroborating evidence and may be the result of consensus pricing. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such bids do not reflect the fair value on an investment, it may independently value such investment by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

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

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

| <b>Asset Category</b>     | <b>Fair Value at<br/>December 31, 2014</b> | <b>Valuation Technique</b> | <b>Unobservable Input</b> | <b>Range of Input<br/>(Weighted Average)</b> |
|---------------------------|--|----------------------------|---------------------------|--|
| Debt investments          | \$ 294,968,658                             | Market Comparable          | Broker/Dealer bid quotes  | N/A  |
| Debt investments          | 923,554,578                                | Market Comparable          | Market Yield              | 10.0% 35.0% (14.5%)                          |
| Equity investments        | 110,732,775                                | Enterprise Market Value    | EBITDA multiple           | 3.4x 11.0x (8.3x)                            |
| Total Level 3 investments | \$ 1,329,256,011                           |                            |                           |  |
| Long-Term Credit Facility | \$ 122,316,693                             | Market Comparable          | Market Yield              | 3.9%   |
| 2019 Notes                | \$ 250,446,250                             | Market Comparable          | Broker/Dealer bid quotes  | N/A  |

| <b>Asset Category</b>     | <b>Fair Value at<br/>September 30, 2014</b> | <b>Valuation Technique</b> | <b>Unobservable Input</b> | <b>Range of Input<br/>(Weighted Average)</b> |
|---------------------------|---|----------------------------|---------------------------|--|
| Debt investments          | \$ 480,344,879                              | Market Comparable          | Broker/Dealer bid quotes  | N/A  |
| Debt investments          | 681,131,020                                 | Market Comparable          | Market Yield              | 9.7% 21.3% (13.2%)                           |
| Equity investments        | 12,163,865                                  | Market Comparable          | Broker/Dealer bid quotes  | N/A  |
| Equity investments        | 99,698,372                                  | Enterprise Market Value    | EBITDA multiple           | 3.3x 14.0x (8.8x)                            |
| Total Level 3 investments | \$ 1,273,338,136                            |                            |                           |  |
| Long-Term Credit Facility | \$ 53,497,620                               | Market Comparable          | Market Yield              | 4.1%   |
| 2019 Notes                | \$ 251,350,250                              | Market Comparable          | Broker/Dealer bid quotes  | N/A  |

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

| Description                                  | Fair Value       | Fair Value at December 31, 2014 |               |                  |
|--|------------------|---------------------------------|---------------|------------------|
|  |                  | Level 1                         | Level 2       | Level 3          |
| Debt investments                             | \$ 1,229,845,236 | \$                              | \$ 11,322,000 | \$ 1,218,523,236 |
| Equity investments                           | 110,749,882      |                                 | 17,107        | 110,732,775      |
| Total investments                            | 1,340,595,118    |                                 | 11,339,107    | 1,329,256,011    |
| Cash and cash equivalents                    | 54,329,248       | 54,329,248                      |               |                  |
| Total investments, cash and cash equivalents | \$ 1,394,924,366 | \$ 54,329,248                   | \$ 11,339,107 | \$ 1,329,256,011 |
| Long-Term Credit Facility                    | \$ 122,316,693   | \$                              | \$            | \$ 122,316,693   |
| 2019 Notes                                   | 250,446,250      |                                 |               | 250,446,250      |
| 2025 Notes                                   | 73,444,500       | 73,444,500                      |               |                  |
| Total debt                                   | \$ 446,207,443   | \$ 73,444,500                   | \$            | \$ 372,762,943   |

| Description                                  | Fair Value       | Fair Value at September 30, 2014 |               |                  |
|--|------------------|----------------------------------|---------------|------------------|
|  |                  | Level 1                          | Level 2       | Level 3          |
| Debt investments                             | \$ 1,206,100,885 | \$                               | \$ 44,624,986 | \$ 1,161,475,899 |
| Equity investments                           | 111,953,881      |                                  | 91,644        | 111,862,237      |
| Total investments                            | 1,318,054,766    |                                  | 44,716,630    | 1,273,338,136    |
| Cash and cash equivalents                    | 66,518,682       | 66,518,682                       |               |                  |
| Total investments, cash and cash equivalents | \$ 1,384,573,448 | \$ 66,518,682                    | \$ 44,716,630 | \$ 1,273,338,136 |
| Long-Term Credit Facility                    | \$ 53,497,620    | \$                               | \$            | \$ 53,497,620    |
| 2019 Notes                                   | 251,350,250      |                                  |               | 251,350,250      |
| 2025 Notes                                   | 71,820,000       | 71,820,000                       |               |                  |
| Total debt                                   | \$ 376,667,870   | \$ 71,820,000                    | \$            | \$ 304,847,870   |

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2014****(Unaudited)**

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

| <b>Description</b>   | <b>Three Months Ended December 31, 2014</b> |                               |                         |
|--|---|-------------------------------|-------------------------|
|  | <b>Debt<br/>investments</b>                 | <b>Equity<br/>investments</b> | <b>Totals</b>           |
| Beginning Balance  | \$ 1,161,475,899                            | \$ 111,862,237                | \$ 1,273,338,136        |
| Net realized gains   | 495,299                                     | 8,308,938                     | 8,804,237               |
| Net unrealized depreciation  | (47,106,810)                                | (1,622,841)                   | (48,729,651)            |
| Purchases, PIK interest, net discount accretion and non-cash exchanges | 140,464,187                                 | 5,704,999                     | 146,169,186             |
| Sales, repayments and non-cash exchanges                               | (65,951,718)                                | (13,520,558)                  | (79,472,276)            |
| Transfers in/out of Level 3  | 29,146,379                                  |                               | 29,146,379              |
| <b>Ending Balance</b>  | <b>\$ 1,218,523,236</b>                     | <b>\$ 110,732,775</b>         | <b>\$ 1,329,256,011</b> |

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

|  |                 |              |                 |
|--|-----------------|--------------|-----------------|
|  | \$ (47,853,929) | \$ 3,534,841 | \$ (44,319,088) |
|--|-----------------|--------------|-----------------|

| <b>Description</b>   | <b>Three Months Ended December 31, 2013</b> |                               |                         |
|--|---|-------------------------------|-------------------------|
|  | <b>Debt<br/>investments</b>                 | <b>Equity<br/>investments</b> | <b>Totals</b>           |
| Beginning Balance  | \$ 915,414,415                              | \$ 110,923,751                | \$ 1,026,338,166        |
| Net realized gains   | 3,942,358                                   | 27,862                        | 3,970,220               |
| Net unrealized appreciation (depreciation)                             | 28,198                                      | (315,010)                     | (286,812)               |
| Purchases, PIK interest, net discount accretion and non-cash exchanges | 230,540,785                                 | 9,961,278                     | 240,502,063             |
| Sales, repayments and non-cash exchanges                               | (129,118,109)                               | (1,726,536)                   | (130,844,645)           |
| Transfers in/out of Level 3  |   |                               |                         |
| <b>Ending Balance</b>  | <b>\$ 1,020,807,647</b>                     | <b>\$ 118,871,345</b>         | <b>\$ 1,139,678,992</b> |
|  | \$ 5,968,997                                | \$ (315,010)                  | \$ 5,653,987            |



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

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

|  | <b>Carrying / Fair Value</b>           |                |
|--|--|----------------|
|  | <b>Three Months Ended December 31,</b> |                |
| <b>Long-Term Credit Facility and 2019 Notes</b>                        | <b>2014</b>                            | <b>2013</b>    |
| Beginning Balance (cost \$305,226,300 and \$117,500,000, respectively) | \$ 304,847,870                         | \$ 117,500,000 |
| Net change in unrealized depreciation included in earnings             | (2,740,127)                            |                |
| Borrowings <sup>(1)</sup>  | 116,000,000                            | 222,500,000    |
| Repayments <sup>(1)</sup>  | (53,344,800)                           | (112,000,000)  |
| Transfers in and/or out of Level 3                                     |  |                |
| Ending Balance (cost \$367,881,500 and \$228,000,000, respectively)    | \$ 364,762,943                         | \$ 228,000,000 |
| Temporary draws outstanding, at cost                                   | 8,000,000                              | 12,000,000     |
| Ending Balance (cost \$375,881,500 and \$240,000,000, respectively)    | \$ 372,762,943                         | \$ 240,000,000 |

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

As of December 31, 2014, we had outstanding non-U.S. dollar borrowings on our Credit Facility denominated in British Pounds. Net unrealized depreciation on these outstanding borrowings is listed below:

|                         |                       | <b>Original</b>       |                      |                   |    | <b>Net Unrealized</b> |
|-------------------------|-----------------------|-----------------------|----------------------|-------------------|----|-----------------------|
| <b>Foreign Currency</b> | <b>Local Currency</b> | <b>Borrowing Cost</b> | <b>Current Value</b> | <b>Reset Date</b> |    | <b>Depreciation</b>   |
| British Pound           | £ 31,000,000          | \$ 51,881,500         | \$ 48,316,693        | January 2, 2015   | \$ | (3,564,807)           |

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We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our Notes. We elected to use the fair value option for the Credit Facility and our Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three months ended December 31, 2014 and 2013, our Credit Facility and our Notes had a net change in unrealized depreciation of \$1.1 million and \$4.1 million, respectively. As of December 31, 2014 and September 30, 2014, net unrealized depreciation (appreciation) on our Credit Facility and our Notes totaled \$0.9 million and \$(0.2) million, respectively. We use a nationally recognized independent valuation service to fair value our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the NYSE under the ticker PNTA and we use the closing price on the exchange to determine their fair value.

**6. TRANSACTIONS WITH AFFILIATED COMPANIES**

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A non-controlled affiliate is a portfolio company in which we own at least 5% but less than 25% of its voting securities and a controlled affiliate is a portfolio company in which we own 25% or more of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the three months ended December 31, 2014 were as follows:

| Name of Investment                             | Fair Value at<br>September 30, 2014* | Purchases of /<br>Advances to<br>Affiliates from | Sale<br>of /<br>Distributions<br>from Affiliates | Income<br>Accrued | Fair Value at<br>December 31, 2014* | Net Realized Gains<br>(Losses) |
|--|--------------------------------------|--|--|-------------------|-------------------------------------|--------------------------------|
| <b>Controlled Affiliates</b>                   |                                      |  |  |                   |                                     |                                |
| Superior Digital<br>Displays Holdings,<br>Inc. | \$ 21,210,823                        | \$ 1,700,000                                     | \$   | \$ 876,297        | \$ 20,179,796                       | \$                             |
| SuttonPark Holdings,<br>Inc.                   | 14,000,000                           | 6,000,000  |  | 402,500           | 20,000,000                          |                                |

**Non-Controlled  
Affiliates**

|                                     |            |         |         |            |
|-------------------------------------|------------|---------|---------|------------|
| DirectBuy Holdings,<br>Inc.         | 11,283,172 | 348,964 | 355,943 | 9,105,636  |
| EnviroSolutions<br>Holdings, Inc.   | 21,268,379 |         | 228,163 | 21,862,175 |
| NCP-Performance,<br>L.P.            |            |         |         |            |
| PAS International<br>Holdings, Inc. | 1,650,729  |         |         | 6,115,655  |
| Service Champ, Inc.                 | 33,645,241 |         | 901,303 | 33,705,824 |

**Total Controlled and  
Non-Controlled  
Affiliates**

|    |             |    |           |    |           |    |             |    |
|----|-------------|----|-----------|----|-----------|----|-------------|----|
| \$ | 103,058,344 | \$ | 8,048,964 | \$ | 2,764,206 | \$ | 110,969,086 | \$ |
|----|-------------|----|-----------|----|-----------|----|-------------|----|

\* Excluding delayed draws.

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

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

|   | <b>Three Months Ended December 31,</b> |               |
|---|--|---------------|
|   | <b>2014</b>                            | <b>2013</b>   |
| Numerator for net (decrease) increase in net assets resulting from operations               | \$ (23,945,694)                        | \$ 39,454,953 |
| Denominator for basic and diluted weighted average shares                                   | 75,092,911                             | 66,546,219    |
| Basic and diluted net (decrease) increase in net assets per share resulting from operations | \$ (0.32)                              | \$ 0.59       |

**8. CASH EQUIVALENTS**

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out our positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from average adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of December 31, 2014 and September 30, 2014, our cash and cash equivalents consisted of \$54.3 million and \$66.5 million, respectively.



**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2014****(Unaudited)****9. FINANCIAL HIGHLIGHTS**

Below are the financial highlights:

|   | <b>Three Months Ended December 31,</b> |             |
|---|--|-------------|
|   | <b>2014</b>                            | <b>2013</b> |
| <b>Per Share Data:</b>  |  |             |
| Net asset value, beginning of period                                | \$ 11.03                               | \$ 10.49    |
| Net investment income <sup>(1)</sup>                                | 0.26                                   | 0.27        |
| Net realized and unrealized gain <sup>(1)</sup>                     | (0.58)                                 | 0.32        |
| Net increase in net assets resulting from operations <sup>(1)</sup> | (0.32)                                 | 0.59        |
| Distributions to stockholders <sup>(1), (2)</sup>                   | (0.28)                                 | (0.28)      |
| Net asset value, end of period                                      | \$ 10.43                               | \$ 10.80    |
| Per share market value, end of period                               | \$ 9.53                                | \$ 11.60    |
| Total return* <sup>(3)</sup>  | (10.06)%                               | 5.38%       |
| Shares outstanding at end of period                                 | 75,092,911                             | 66,546,734  |
| <b>Ratios**/ Supplemental Data:</b>                                 |  |             |
| Ratio of operating expenses to average net assets <sup>(4)</sup>    | 6.49%                                  | 6.66%       |
| Ratio of interest and expenses on debt to average net assets        | 3.20%                                  | 2.55%       |
|   | 9.69%                                  | 9.21%       |

Ratio of total expenses to  
average net assets

|   |  |       |  |        |
|---|--|-------|--|--------|
| Ratio of net investment income<br>to average net assets |  | 9.57% |  | 10.03% |
|---|--|-------|--|--------|

|                             |    |             |    |             |
|-----------------------------|----|-------------|----|-------------|
| Net assets at end of period | \$ | 783,038,240 | \$ | 718,865,187 |
|-----------------------------|----|-------------|----|-------------|

|   |    |             |    |             |
|---|----|-------------|----|-------------|
| Weighted average debt<br>outstanding <sup>(5)</sup> | \$ | 562,649,862 | \$ | 433,815,217 |
|---|----|-------------|----|-------------|

|  |    |      |    |      |
|--|----|------|----|------|
| Weighted average debt per<br>share <sup>(1), (5)</sup> | \$ | 7.49 | \$ | 6.52 |
|--|----|------|----|------|

|  |    |       |    |       |
|--|----|-------|----|-------|
| Asset coverage per unit <sup>(6)</sup> | \$ | 2,755 | \$ | 3,362 |
|--|----|-------|----|-------|

|                          |  |        |  |        |
|--------------------------|--|--------|--|--------|
| Portfolio turnover ratio |  | 24.04% |  | 50.16% |
|--------------------------|--|--------|--|--------|

\* Not annualized for periods less than one year.

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

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

(2) The tax status of distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP, and reported on Form 1099-DIV each calendar year.

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

(4) Excludes debt related costs.

(5) Includes SBA debentures outstanding.

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

## 10. DEBT

Our annualized weighted average cost of debt for the three months ended December 31, 2014 and 2013, inclusive of the fee on the undrawn commitment on the Credit Facility and amortized upfront fees on SBA debentures but excluding debt issuance costs, was 4.63% and 4.20%, respectively. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing, excluding SBA debentures, pursuant to exemptive relief from the SEC received in June 2011.

***Credit Facility***

We have a \$545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of December 31, 2014 and September 30, 2014, there was \$125.9 million (including a temporary draw of \$8.0 million) and \$55.2 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 2.75% and 2.80%, exclusive of the fee on undrawn commitments of 0.375%. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2014****(Unaudited)*****SBA Debentures***

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150.0 million as of December 31, 2014. We have funded SBIC II with \$37.5 million of equity capital and we received a commitment from the SBA to allow SBIC II to access \$75.0 million in SBA debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$225 million in the aggregate.

As of December 31, 2014 and September 30, 2014, our SBIC Funds had \$225 million and \$150 million in debt commitments, respectively, and \$150.0 million was drawn for each period. Both SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures as of December 31, 2014 and September 30, 2014 were as follows:

| <b>Issuance Dates</b>         | <b>Maturity</b>   | <b>Fixed<br/>All-in<br/>coupon<br/>rate<br/>(1)</b> | <b>Principal<br/>Balance</b> |
|-------------------------------|-------------------|---|------------------------------|
| September 22, 2010            | September 1, 2020 | 3.50%   | \$ 500,000                   |
| March 29, 2011                | March 1, 2021     | 4.46  | 44,500,000                   |
| September 21, 2011            | September 1, 2021 | 3.38  | 105,000,000                  |
| Weighted Average Rate / Total |                   | 3.70%   | \$ 150,000,000               |

(1) Excluding 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing



certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of December 31, 2014, our SBIC Funds were in compliance with their regulatory requirements.

### ***2019 Notes***

As of December 31, 2014 and September 30, 2014, we had \$250.0 million in aggregate principal amount of 2019 Notes. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year, beginning on April 1, 2015. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and effectively subordinated to the assets pledged or secured under our Credit Facility.

### ***2025 Notes***

As of December 31, 2014 and September 30, 2014, we had \$71.3 million in aggregate principal amount of 2025 Notes. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and effectively subordinated to the assets pledged or secured under our Credit Facility. Our 2025 Notes trade on the NYSE under the symbol PNTA.

## **11. COMMITMENTS AND CONTINGENCIES**

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt and equity investments, if any, are disclosed in the Consolidated Schedule of Investments. As of December 31, 2014 and 2013, we had \$11.9 million and \$15.6 million, respectively, in commitments to fund various revolving and delayed draw investments.

We, in the ordinary course of business, have guaranteed certain obligations of SPH. The guaranties are only triggered if there were administrative errors in acquiring assets which SPH subsequently sold or securitized. As of December 31, 2014, our maximum guaranty was \$9.5 million. Based on SPH's and industry historical loss rates we believe the risk of loss is remote, thus, we have not recorded a liability associated with the guaranties. The current guaranties will decline over time.

## **12. SUBSEQUENT EVENTS**

After quarter-end, Patriot National, Inc. priced and closed an initial public offering. Our proceeds of approximately \$60 million resulted in about \$0.13 per share of realized gain, an increase in NAV per share of about \$0.08 and about \$0.04 per share of other income.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

We have reviewed the accompanying consolidated statement of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (the Company), including the consolidated schedule of investments, as of December 31, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the three months ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated statement of assets and liabilities of the Company, including the consolidated schedule of investments, as of September 30, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 12, 2014, we expressed an unqualified opinion on those financial statements.

/s/ McGladrey LLP

New York, New York

February 4, 2015

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

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

our future operating results;

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

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

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

the impact of investments that we expect to make;

the impact of fluctuations in interest rates and foreign exchange rates on our business and our portfolio companies;

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

the impact of price and volume fluctuations in the stock market;

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

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

the impact of European sovereign debt issues.

We use words such as anticipates, believes, expects, intends, seeks, plans, estimates and similar expressions to identify forward-looking statements. You should not place undue influence on the forward-looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason including the factors set forth in Risk Factors in our annual report on form 10-K for the fiscal year-ended September 30, 2014 and elsewhere in this Report.

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

We have based the forward-looking statements included in this Report on information available to us on the date of this Report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this Report, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including reports on Form 10-Q/K and current reports on Form 8-K.

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

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

### ***Overview***

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

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured loans, mezzanine debt and equity investments by investing approximately \$10 million to \$50 million of capital, on average, in the

securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies. Securities rated below investment grade are often referred to as leveraged loans or high yield securities or junk bonds and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

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Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our Credit Facility, SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

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

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

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

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

### ***Revenues***

We generate revenue in the form of interest income on the debt securities we hold and capital gains and dividends, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of senior secured loans or mezzanine debt, typically have terms of three to ten years and bear interest at a fixed or a floating rate. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments and PIK interest. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of amendment, commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, OID, market discount or premium and deferred financing costs on financing costs on liabilities which we do not fair value are capitalized and then accreted or amortized using the effective interest method as interest income. We record prepayment penalties on loans and debt securities as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

### ***Expenses***

Our primary operating expenses include the payment of a management fee to our Investment Adviser, the payment of an incentive fee to our Investment Adviser, if any, our allocable portion of overhead under our Administration Agreement and other operating costs as detailed below. Our management fee compensates our Investment Adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments. Additionally, we pay interest expense on the outstanding debt and unused commitment fees under our various debt facilities. We bear all other direct or indirect costs and expenses of our operations and transactions, including:

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

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

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

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

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal and state registration fees and any exchange listing fees;

federal, state, local and foreign taxes;

independent directors' fees and expenses;

brokerage commissions;

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

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

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

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

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



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

## **PORTFOLIO AND INVESTMENT ACTIVITY**

As of December 31, 2014, our portfolio totaled \$1,340.6 million and consisted of \$423.0 million of senior secured loans, \$588.0 million of second lien secured debt, \$218.9 million of subordinated debt and \$110.7 million of preferred and common equity. Our debt portfolio consisted of 30% fixed-rate and 70% variable-rate investments (including 64% with a LIBOR or prime floor). As of December 31, 2014, we had two non-accrual debt investments, representing 1.7% of our overall portfolio on a cost basis. Our overall portfolio consisted of 66 companies with an average investment size of \$20.3 million, had a weighted average yield on debt investments of 12.5% and was invested 32% in senior secured loans, 44% in second lien secured debt, 16% in subordinated debt and 8% in preferred and common equity.

As of September 30, 2014, our portfolio totaled \$1,318.1 million and consisted of \$465.6 million of senior secured loans, \$493.4 million of second lien secured debt, \$247.1 million of subordinated debt and \$112.0 million of preferred and common equity. Our debt portfolio consisted of 33% fixed-rate and 67% variable-rate investments (including 61% with a LIBOR or prime floor). As of September 30, 2014, we had one non-accrual debt investment, representing 0.3% of our overall portfolio on a cost basis. Our overall portfolio consisted of 67 companies with an average investment size of \$19.7 million, had a weighted average yield on debt investments of 12.5% and was invested 35% in senior secured loans, 37% in second lien secured debt, 19% in subordinated debt and 9% in preferred and common equity.

For the three months ended December 31, 2014, we invested \$158.9 million in three new and five existing portfolio companies with a weighted average yield on debt investments of 12.6%. Sales and repayments of investments for the three months ended December 31, 2014 totaled \$79.3 million.

For the three months ended December 31, 2013, we invested \$228.0 million in nine new and seven existing portfolio companies with a weighted average yield on debt investments of 12.4%. Sales and repayments of investments for the three months ended December 31, 2013 totaled \$144.0 million.

## **CRITICAL ACCOUNTING POLICIES**

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

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

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

Our investments generally consist of illiquid securities, including debt and equity investments. 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 our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

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



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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments, our Credit Facility and the 2019 Notes are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material. A review of fair value hierarchy classifications is conducted on a quarterly basis.

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

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our Notes. We elected to use the fair value option for the Credit Facility and our Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three months ended December 31, 2014 and 2013, our Credit Facility, 2019 Notes and 2025 Notes, collectively, had a net change in unrealized depreciation of \$1.1 million and \$4.1 million, respectively. As of December 31, 2014 and September 30, 2014, net unrealized depreciation (appreciation) on our Credit Facility and our Notes totaled \$0.9 million and \$(0.2) million, respectively. We use a nationally recognized independent valuation service to fair value our Credit Facility in a manner consistent with the

valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the NYSE, under the ticker PNTA , and we use the closing price on the exchange to determine their fair value.

### ***Revenue Recognition***

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents 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 collectible. 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, OID, market discount or premium and deferred financing costs on liabilities which we do not fair value are capitalized and then accreted or amortized using the effective interest method as interest income or interest expense as it relates to our deferred financing costs. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

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

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

### ***Foreign Currency Translation***

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

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

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

### ***Payment-In-Kind, or PIK, Interest***

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

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**Table of Contents*****Federal Income Taxes***

We have elected to be taxed, and intend to qualify annually to maintain our election to be taxed, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements. We also must annually distribute at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of the sum of our net capital gains income (i.e. the excess, if any, of our capital gains over capital losses) for the one-year period ending on October 31 of the calendar year and (3) the sum of any net ordinary income plus net capital gain income for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or net ordinary income to provide us with additional liquidity.

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

**RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three months ended December 31, 2014 and 2013.

***Investment Income***

Investment income for the three months ended December 31, 2014 was \$39.2 million and was attributable to \$14.6 million from senior secured loans, \$15.9 million from second lien secured debt, \$8.2 million from subordinated debt and \$0.5 million from preferred and common equity. Investment income for the three months ended December 31, 2013 was \$34.4 million and was attributable to \$9.6 million from senior secured loans, \$12.3 million from second lien secured debt, \$11.4 million from subordinated debt and \$1.1 million from common equity. The increase in investment income compared with the same period in the prior year is primarily due to the growth of our portfolio.

***Expenses***

Expenses for the three months ended December 31, 2014 totaled \$19.7 million. Base management fee for the same period totaled \$6.8 million, incentive fee totaled \$4.9 million, debt related interest and expenses totaled \$6.5 million and general and administrative expenses totaled \$1.5 million. Expenses for the three months ended December 31, 2013 totaled \$16.5 million. Base management fee for the same period totaled \$5.7 million, incentive fee totaled \$4.5 million, debt related interest and expenses totaled \$4.6 million and general and administrative expenses totaled \$1.7 million. The increase in expenses compared with the same period in the prior year was primarily due to increased borrowing costs and the growth of our portfolio.

***Net Investment Income***

Net investment income totaled \$19.5 million, or \$0.26 per share, for the three months ended December 31, 2014, and \$18.0 million, or \$0.27 per share, for the three months ended December 31, 2013. The increase in net investment income compared to the same period in the prior year was due to the growth of our portfolio offset by higher financing costs. The decrease in net investment income per share compared with the same period in the prior year was due to the issuance of new shares.

### ***Net Realized Gains or Losses***

Sales and repayments of investments for the three months ended December 31, 2014 totaled \$79.3 million and realized gains totaled \$8.6 million. Sales and repayments of investments totaled \$144.0 million and realized gains totaled \$2.7 million for the three months ended December 31, 2013. The increase in realized gains compared with the same period in the prior year is due to the improved merger and acquisition environment and repayments of our investments.

### ***Unrealized Appreciation or Depreciation on Investments, Credit Facility and our Notes***

For the three months ended December 31, 2014 and 2013, we reported a net unrealized (depreciation) appreciation on investments of \$(53.2) million and \$14.7 million, respectively. As of December 31, 2014 and September 30, 2014, our net unrealized depreciation on investments totaled \$54.0 million and \$0.9 million, respectively. The decrease compared with the same period in the prior year was the result of the overall variation in the leveraged finance markets.

For the three months ended December 31, 2014 and 2013, we reported a net unrealized depreciation on our Credit Facility and our Notes of \$1.1 million and \$4.1 million, respectively. The decrease compared with the same period in the prior year was due to changes in the capital markets.

### ***Net Change in Net Assets Resulting from Operations***

Net change in net assets resulting from operations totaled \$(23.9) million, or \$(0.32) per share, for the three months ended December 31, 2014. This compares to a net change in net assets resulting from operations of \$39.5 million, or \$0.59 per share, for the three months ended December 31, 2013. The decrease in the net change in net assets from operations compared with the same period in the prior year reflects the change in portfolio investment values during the reporting period.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

We have a \$545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of December 31, 2014 and September 30, 2014, there was \$125.9 million (including a temporary draw of \$8.0 million) and \$55.2 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 2.75% and 2.80%, respectively, exclusive of the fee on undrawn commitments of 0.375%. The annualized weighted average cost of debt for the three months ended December 31, 2014 and 2013, inclusive of the fee on the undrawn commitment on the Credit Facility and upfront fees on SBA debentures, was 4.63% and 4.20%, respectively. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing is set at 225 basis points over LIBOR. As of

December 31, 2014 and September 30, 2014, we had \$419.1 million and \$489.8 million of unused borrowing capacity, respectively, subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.



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For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on June 30, 2014 and the Credit Facility agreement filed as Exhibit 99.2 thereto and incorporated by reference herein. As of December 31, 2014, we were in compliance with the terms of our Credit Facility.

In September 2014, we issued \$250.0 million in aggregate principal amount of 2019 Notes, for net proceeds of \$245.5 million after underwriting discounts and offering costs. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year, beginning on April 1, 2015. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and effectively subordinated to the assets pledged or secured under our Credit Facility. Please see our base indenture agreement filed as Exhibit (d)(8) to our post-effective amendment filed on January 22, 2013 (the Base Indenture ) and the supplemental indenture agreement filed as Exhibit (d)(11) to our post-effective amendment filed on September 23, 2014 for more information.

In January 2013, we issued \$71.3 million in aggregate principal amount of 2025 Notes, after exercise of the over-allotment option, for net proceeds of \$68.8 million after underwriting discounts and offering costs. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and effectively subordinated to the assets pledged or secured under our Credit Facility. Our 2025 Notes trade on the NYSE under the symbol PNTA. Please see our Base Indenture and the supplemental indenture agreement filed as Exhibit (d)(9) to our post-effective amendment filed on January 22, 2013 for more information.

We may raise additional equity or debt capital through both registered offerings off our shelf registration statement and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA, among other sources. Any future additional debt capital we incur, to the extent it is available, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility, SBA debentures or our Notes. Furthermore, our Credit Facility availability depends on various covenants and restrictions. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate or strategic purposes. For each of the three month periods ended December 31, 2014 and 2013, we did not issue shares of common stock in connection with an equity offering. Any decision to sell shares below the then current net asset value per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below net asset value per share results in immediate dilution to our stockholders' interests in our common stock and a reduction in our net asset value per share.

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150.0 million as of December 31, 2014. We have funded SBIC II with \$37.5 million of equity capital and we received a commitment from the SBA to allow SBIC II to access \$75.0 million in SBA debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$225.0 million in the aggregate.

As of December 31, 2014 and September 30, 2014, our SBIC Funds had \$225.0 million in debt commitments and \$150.0 million was drawn for each period. Both SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized. Our fixed-rate SBA debentures as of December 31, 2014 and September 30, 2014 were as follows:

| Issuance Dates                | Maturity          |       | Fixed All-in coupon rate <sup>(1)</sup> | Principal Balance |
|-------------------------------|-------------------|-------|---|-------------------|
|                               |                   |       |   |                   |
| September 22, 2010            | September 1, 2020 | 3.50% | \$                                      | 500,000           |
| March 29, 2011                | March 1, 2021     | 4.46  |   | 44,500,000        |
| September 21, 2011            | September 1, 2021 | 3.38  |   | 105,000,000       |
| Weighted Average Rate / Total |                   |       | 3.70%                                   | \$ 150,000,000    |

(1) Excluding 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of December 31, 2014, our SBIC Funds were in compliance with their regulatory requirements.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that our asset coverage ratio is met after such borrowing. As of December 31, 2014 and September 30, 2014, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. In 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage ratio requirement to exclude the SBA debentures from the calculation. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% which, while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

On December 31, 2014 and September 30, 2014, we had cash and cash equivalents of \$54.3 million and \$66.5 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of \$61.8 million for the three months ended December 31, 2014, primarily for net purchases of investments. Our financing activities provided cash of \$49.6 million for the same period, primarily from net borrowings under our Credit Facility.

Our operating activities used cash of \$104.1 million for the three months ended December 31, 2013, primarily for net purchases of investments. Our financing activities provided cash of \$76.4 million for the same period, primarily from net borrowings under our Credit Facility.



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

A summary of our significant contractual payment obligations as of December 31, 2014, including borrowings under our various debt facilities and other contractual obligations, is as follows:

|                                       | Payments due by period (in millions) |                  |           |           |                   |
|---------------------------------------|--------------------------------------|------------------|-----------|-----------|-------------------|
|                                       | Total                                | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Credit Facility                       | \$ 125.9                             | \$               | \$        | \$ 125.9  | \$                |
| SBA debentures                        | 150.0                                |                  |           |           | 150.0             |
| 2019 Notes                            | 250.0                                |                  |           | 250.0     |                   |
| 2025 Notes                            | 71.3                                 |                  |           |           | 71.3              |
| Total debt outstanding <sup>(1)</sup> | 597.2                                |                  |           | 375.9     | 221.3             |
| Unfunded investments <sup>(2)</sup>   | 11.9                                 |                  | 1.0       | 10.9      |                   |
| Total contractual obligations         | \$ 609.1                             | \$               | \$ 1.0    | \$ 386.8  | \$ 221.3          |

(1) The annualized weighted average cost of debt as of December 31, 2014, excluding debt issuance costs, was 4.14% exclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility and 3.43% of upfront fees on SBA debentures.

(2) Unfunded debt and equity investments are disclosed in the Consolidated Schedule of Investments. We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2015, PennantPark Investment Advisers serves as our Investment Adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements with us. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2015, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under

their administration agreements, which are intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, PennantPark Investment Advisers or PennantPark Investment Administration will be paid an additional amount based on the services provided, which amount will not in any case exceed the amount we receive from the portfolio companies for such services. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

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

We, in the ordinary course of business, have guaranteed certain obligations of SPH. The guaranties are only triggered if there were administrative errors in acquiring assets which SPH subsequently sold or securitized. As of December 31, 2014, our maximum guaranty was \$9.5 million. Based on SPH's and the industry historical loss rates we believe the risk of loss is remote, thus, we have not recorded a liability associated with the guaranties. The current guaranties will decline over time.

### ***Recent Developments***

After quarter-end, Patriot National, Inc. priced and closed an initial public offering. Our proceeds of approximately \$60 million resulted in about \$0.13 per share of realized gain, an increase in NAV per share of about \$0.08 and about \$0.04 per share of other income.

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

We currently engage in no off-balance-sheet arrangements other than our funding requirements for the unfunded investments described above.

### ***Distributions***

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

During the three months ended December 31, 2014 and 2013, we declared distributions of \$0.28 per share each period for total distributions of \$21.0 million and \$18.6 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a return of capital to our common stockholders. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year and in our periodic reports filed with the SEC.

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

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

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

**Item 3. Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of December 31, 2014, our debt portfolio consisted of 30% fixed-rate investments and 70% variable-rate investments (including 64% with a LIBOR or prime floor). The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates.

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

| Change In Interest Income,<br>Net Of Interest Expense |                |        |           |
|---|----------------|--------|-----------|
| Change In Interest Rates                              | (In Thousands) |        | Per Share |
| Up 1%   | \$             | 322    | \$        |
| Up 2%   | \$             | 8,116  | \$ 0.11   |
| Up 3%   | \$             | 15,910 | \$ 0.21   |
| Up 4%   | \$             | 23,703 | \$ 0.32   |

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the Consolidated Statement of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations, or net investment income. Accordingly, no assurances can be given that actual results would not differ materially from those shown above.

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

We may hedge against interest rate and foreign currency fluctuations by using standard hedging instruments such as futures, options and forward contracts or our Credit Facility subject to the requirements of the 1940 Act and applicable

commodities laws. While hedging activities may insulate us against adverse changes in interest rates and foreign currencies, they may also limit our ability to participate in benefits of lower interest rates or higher exchange rates with respect to our portfolio of investments. During the periods covered by this Report, we did not engage in interest rate hedging activities.

#### **Item 4. Controls and Procedures**

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

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Neither we nor our Investment Adviser nor our Administrator is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our Investment Adviser or Administrator. From time to time, we, our Investment Adviser or Administrator may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Report, you should consider carefully the factors discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing PennantPark Investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

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

- 3.1 Articles of Incorporation (Incorporated by reference to Exhibit 99(a) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2/A (File No. 333-140092), filed on April 5, 2007).
- 3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K (File No. 814-00736), filed on November 13, 2013).
- 4.1 Form of Share Certificate (Incorporated by reference to Exhibit 99(d)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
- 11 Computation of Per Share Earnings (included in the notes to the Consolidated Financial Statements contained in this Report).
- 31.1 \* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 31.2 \* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 32.1 \* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 \* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Privacy Policy of the Registrant (Incorporated by reference to Exhibit 99.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00736), filed on November 16, 2011).

\* Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNANTPARK INVESTMENT CORPORATION

Date: February 4, 2015

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

**(Principal Executive Officer)**

Date: February 4, 2015

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

**(Principal Financial and Accounting Officer)**