

PENNANTPARK INVESTMENT CORP
Form 10-Q
May 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR THE QUARTER ENDED MARCH 31, 2011**

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**

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(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	20-8250744 (I.R.S. Employer Identification No.)
590 Madison Avenue, 15th Floor New York, N.Y. (Address of principal executive offices)	10022 (Zip Code)
(212)-905-1000 (Registrant's Telephone Number, Including Area Code)	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of May 4, 2011 was 45,581,084.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2011

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PART I CONSOLIDATED FINANCIAL INFORMATION

We are filing this form 10-Q (the Report) in compliance with Rule 13a-13 promulgated by the Securities and Exchange Commission (SEC). In this Report, we , our or us refer to PennantPark Investment Corporation and its consolidated subsidiaries unless the context suggests otherwise. References to PennantPark Investment refer to only PennantPark Investment Corporation. References to subsidiaries or our SBIC refer to PennantPark SBIC LP (SBIC LP) and its general partner PennantPark SBIC GP, LLC (SBIC GP), which are wholly owned and consolidated. References to our portfolio and investments include investments we make through subsidiaries.

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

	March 31, 2011 (unaudited)	September 30, 2010
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$698,256,084 and \$631,280,755, respectively)	\$ 731,730,316	\$ 641,290,626
Non-controlled, affiliated investments, at fair value (cost \$17,875,050 and \$17,427,648, respectively)	15,919,916	15,433,680
Controlled, affiliated investments, at fair value (cost \$11,000,100 and 8,000,100, respectively)	11,000,000	8,000,100
Total of Investments, at fair value (cost \$727,131,234 and \$656,708,503, respectively)	758,650,232	664,724,406
Cash equivalents (See Note 8)	1,546,429	1,814,451
Interest receivable	11,576,869	12,814,096
Receivable for investments sold		30,254,774
Prepaid expenses and other assets	3,139,923	1,886,119
Total assets	774,913,453	711,493,846
Liabilities		
Distributions payable	12,286,331	9,401,281
Payable for investments purchased	12,375,000	52,785,000
Unfunded investments	18,633,872	22,203,434
Credit facility payable (cost: \$152,838,800 and \$233,100,000, respectively) (See Notes 5 and 10)	150,183,371	219,141,125
SBA debentures payable (See Note 10)	59,500,000	14,500,000
Interest payable on credit facility and SBA debentures	292,514	215,135
Management fee payable (See Note 3)	3,589,342	3,286,816
Performance-based incentive fee payable (See Note 3)	3,338,434	2,239,011
Accrued other expenses	694,751	1,146,821
Total liabilities	260,893,615	324,918,623
Net Assets		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 45,504,932 and 36,158,772 shares issued and outstanding, respectively	45,505	36,159
Paid-in capital in excess of par value	538,546,978	428,675,184
Undistributed net investment income	4,584,659	1,800,646
Accumulated net realized loss on investments	(63,331,731)	(65,911,544)
Net unrealized appreciation on investments	31,518,998	8,015,903
Net unrealized depreciation on credit facility	2,655,429	13,958,875
Total net assets	\$ 514,019,838	\$ 386,575,223
Total liabilities and net assets	\$ 774,913,453	\$ 711,493,846
Net asset value per share	\$ 11.30	\$ 10.69

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	\$ 20,836,197	\$ 12,783,931	\$ 39,395,362	\$ 25,735,164
Other	1,233,863	412,482	2,080,447	732,085
From non-controlled, affiliated investments:				
Interest	381,222	328,580	744,654	656,229
From controlled, affiliated investments:				
Interest	260,167		470,167	
Total investment income	22,711,449	13,524,993	42,690,630	27,123,478
Expenses:				
Base management fee (See Note 3)	3,589,342	2,772,132	7,087,936	5,296,785
Performance-based incentive fee (See Note 3)	3,338,434	1,764,607	6,131,428	3,573,987
Interest and expenses on the credit facility and SBA debentures (See Note 10)	1,086,523	838,275	2,221,950	1,656,958
Administrative services expenses (See Note 3)	650,662	539,619	1,229,717	1,097,123
Other general and administrative expenses	847,668	560,974	1,531,027	1,104,389
Expenses before taxes	9,512,629	6,475,607	18,202,058	12,729,242
Excise tax (See Note 2)	39,857	(9,072)	158,824	97,890
Total expenses	9,552,486	6,466,535	18,360,882	12,827,132
Net investment income	13,158,963	7,058,458	24,329,748	14,296,346
Realized and unrealized gain (loss) on investments and credit facility:				
Net realized gain (loss) on non-controlled, non-affiliated investments	286,452	(140,986)	2,579,813	(16,744,851)
Net change in unrealized appreciation (depreciation) on:				
Non-controlled, non-affiliated investments	4,711,487	9,895,674	23,464,360	33,989,336
Non-controlled, affiliated investments	129,006	8,425	38,835	(204,099)
Controlled, affiliated investments	(100)		(100)	
Credit facility unrealized (appreciation) (See Note 5)	(4,698,821)	(19,852,714)	(11,303,446)	(25,691,628)
Net change in unrealized appreciation (depreciation)	141,572	(9,948,615)	12,199,649	8,093,609
Net realized and unrealized gain (loss) from investments and credit facility	428,024	(10,089,601)	14,779,462	(8,651,242)
Net increase (decrease) in net assets resulting from operations	\$ 13,586,987	\$ (3,031,143)	\$ 39,109,210	\$ 5,645,104
Net increase (decrease) in net assets resulting from operations per common share (See Note 7)	\$ 0.33	\$ (0.11)	\$ 1.01	\$ 0.21

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Net investment income per common share	\$	0.32	\$	0.26	\$	0.63	\$	0.54
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SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31,	
	2011	2010
Increase in net assets from operations:		
Net investment income	\$ 24,329,748	\$ 14,296,346
Net realized gain (loss) on investments	2,579,813	(16,744,851)
Net change in unrealized appreciation on investments	23,503,095	33,785,237
Net change in unrealized (appreciation) on credit facility	(11,303,446)	(25,691,628)
Net increase in net assets resulting from operations	39,109,210	5,645,104
Distributions to Stockholders:		
Distributions from net investment income	(21,704,559)	(14,657,474)
Capital Share Transactions:		
Public offering	114,080,000	61,020,000
Offering costs relating to public offering	(5,743,800)	(3,376,000)
Reinvestment of dividends	1,703,764	
Total increase in net assets	127,444,615	48,631,630
Net Assets:		
Beginning of period	386,575,223	300,580,268
End of period	\$ 514,019,838	\$ 349,211,898
Undistributed net investment income, end of period	4,584,659	1,626,997
Capital Share Activity:		
Public offering	9,200,000	6,190,000
Reinvestment of dividends	146,160	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 39,109,210	\$ 5,645,104
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in unrealized appreciation on investments	(23,503,095)	(33,785,237)
Net change in unrealized appreciation on credit facility	11,303,446	25,691,628
Net realized (gain) loss on investments	(2,579,813)	16,744,851
Net accretion of discount and amortization of premium	(3,219,842)	(2,000,365)
Purchase of investments	(196,549,024)	(119,033,410)
Payment-in-kind interest	(5,181,586)	(3,354,193)
Proceeds from dispositions of investments	137,107,533	23,491,075
Decrease (Increase) in interest receivable	1,237,227	(2,564,187)
Decrease (Increase) in receivable for investments sold	30,254,774	(2,136,493)
Decrease in prepaid expenses and other assets	502,446	320,321
(Decrease) Increase in payable for investments purchased	(40,410,000)	5,010,475
(Decrease) Increase in unfunded investments	(3,569,562)	7,010,744
Increase (Decrease) in interest payable on credit facility and SBA debentures	77,379	(21,337)
Increase in management fee payable	302,526	552,096
Increase in performance-based incentive fee payable	1,099,423	256,428
(Decrease) in accrued expenses	(452,070)	(675,898)
 Net cash used for operating activities	 (54,471,028)	 (78,848,398)
Cash flows from financing activities:		
Public offering	114,080,000	61,020,000
Offering costs related to public offering	(5,743,800)	(3,376,000)
Distributions paid to stockholders, net of dividends reinvested	(17,115,744)	(11,508,698)
Borrowings under SBA debentures (See Note 10)	45,000,000	
Capitalized borrowing costs	(1,756,250)	
Borrowings under credit facility (See Note 10)	200,300,000	116,000,000
Repayments under credit facility (See Note 10)	(280,561,200)	(115,600,000)
 Net cash provided by financing activities	 54,203,006	 46,535,302
 Net decrease in cash equivalents	 (268,022)	 (32,313,096)
Cash equivalents, beginning of period	1,814,451	33,247,666
 Cash equivalents, end of period	 \$ 1,546,429	 \$ 934,570
Supplemental disclosure of cash flow information and non-cash financing activity (See Note 5):		
Interest paid	\$ 1,826,073	\$ 1,545,142
Income taxes paid	\$ 123,824	\$ 97,890
Dividends reinvested	\$ 1,703,764	\$

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****MARCH 31, 2011****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies			142.4	0⁽¹⁾,⁽²⁾			
First Lien Secured Debt 57.5%							
Affinity Group Holdings, Inc. ⁽⁵⁾	12/01/2016	Consumer Products	11.50%		\$ 12,000,000	\$ 11,758,305	\$ 12,600,000
American Surgical Holdings, Inc.	03/23/2015	Healthcare, Education and Childcare	14.00%	L+1,000 ⁽⁸⁾	21,000,000	20,371,820	20,370,000
Birch Communications, Inc.	06/21/2015	Telecommunications	15.00%	L+1,300 ⁽⁸⁾	20,000,000	19,465,255	20,200,000
CEVA Group PLC ^{(5),(10)}	10/01/2016	Logistics	11.63%		7,500,000	7,316,405	8,250,000
CEVA Group PLC ^{(5),(10)}	04/01/2018	Logistics	11.50%		1,000,000	988,304	1,086,250
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 ⁽⁸⁾	8,875,000	8,440,033	9,141,250
Columbus International, Inc. ^{(5),(10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,525,000
Covad Communications Group, Inc. ⁽⁵⁾	11/03/2015	Telecommunications	12.00%	L+1,000 ⁽⁸⁾	6,825,000	6,696,339	6,876,188
EnviroSolutions, Inc. ⁽⁹⁾	07/29/2013	Environmental Services			6,666,666	6,666,666	6,666,666
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.63%	L+225	8,707,500	8,707,500	4,702,050
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	24,750,000	24,310,573	25,987,500
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.56%	L+225	9,708,108	9,708,108	8,227,622
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675 ⁽⁸⁾	18,952,500	17,914,550	18,952,500
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,520,274	26,052,631
Penton Media, Inc.	08/01/2014	Other Media	5.00% ⁽⁶⁾	L+400 ⁽⁸⁾	33,331,117	27,879,932	26,720,456
Questex Media Group LLC ⁽⁹⁾	12/16/2012	Other Media			267,205	267,205	261,060
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 ⁽⁸⁾	29,352,500	28,672,202	29,756,097
Survey Sampling International, L.L.C.	12/31/2012	Business Services	10.65% ⁽⁶⁾	L+650 ⁽⁸⁾	4,489,615	3,518,960	3,501,900
Three Rivers Pharmaceutical, L.L.C.	10/22/2012	Healthcare, Education and Childcare	15.00%	L+1,300 ⁽⁸⁾	30,000,000	28,309,372	31,800,000
VPSI, Inc.	12/22/2015	Personal Transportation	12.00%	L+1,000 ⁽⁸⁾	17,989,583	17,701,158	17,989,583
Yonkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,386,421	5,006,250
Total First Lien Secured Debt						288,599,382	295,673,003

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****MARCH 31, 2011****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Second Lien Secured Debt 26.0%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.31%	L+600	\$ 13,600,000	\$ 13,247,258	\$ 12,648,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.31%	L+700	12,000,000	11,793,689	11,497,500
DirectBuy Holdings, Inc. ⁽⁵⁾	02/01/2017	Consumer Products	12.00%		34,000,000	31,824,243	25,840,000
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600 ⁽⁸⁾	6,237,317	6,237,317	6,237,317
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% ⁽⁶⁾	L+700 ⁽⁸⁾	2,711,726	2,711,727	2,738,843
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 ⁽⁸⁾	3,094,979	3,094,979	2,698,822
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% ⁽⁶⁾	L+750 ⁽⁸⁾	1,879,375	1,879,375	1,578,675
RAM Energy Resources, Inc.	09/13/2016	Oil and Gas	11.00%	L+900 ⁽⁸⁾	17,000,000	16,662,330	16,660,000
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,825,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.06% ⁽⁶⁾	L+575	13,500,000	11,686,995	13,162,500
Specialized Technology Resources, Inc.	12/15/2014	Chemicals, Plastics and Rubber	7.25% ⁽⁶⁾	L+700	22,500,000	22,491,157	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.31% ⁽⁶⁾	L+600	7,811,488	7,383,586	7,342,799
Total Second Lien Secured Debt						139,012,656	133,729,456
Subordinated Debt/Corporate Notes 47.1%							
Affinion Group Holdings, Inc. ⁽⁵⁾	11/15/2015	Consumer Products	11.63%		10,000,000	9,868,722	10,175,000
Aquilex Holdings, LLC ⁽⁵⁾	12/15/2016	Diversified / Conglomerate Services	11.13%		18,885,000	18,409,596	19,947,281
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% ⁽⁶⁾		8,109,468	7,982,866	8,231,110
Da-Lite Screen Company, Inc. ⁽⁵⁾	04/01/2015	Home and Office Furnishings, Housewares and Durable Consumer Products	12.50%		25,000,000	24,432,431	27,093,750
Escort Inc.	06/01/2016	Electronics	14.75% ⁽⁶⁾		24,220,378	23,583,273	24,220,378
i2 Holdings Ltd. ⁽¹⁰⁾	06/06/2014	Aerospace and Defense	14.75% ⁽⁶⁾		23,607,187	23,337,934	23,607,187
Learning Care Group (US) Inc.	06/30/2016	Education	15.00% ⁽⁶⁾		4,248,355	3,532,698	3,919,108
MailSouth, Inc.	05/15/2018	Printing and Publishing	14.50%		15,000,000	14,558,633	15,000,000
MedQuist, Inc.	10/15/2016	Business Services	13.00% ⁽⁶⁾		19,000,000	18,458,388	19,190,000
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	14.02% ⁽⁶⁾		16,785,000	16,378,606	16,785,000
Realogy Corp.	04/15/2018	Buildings and Real Estate	11.00%		10,000,000	9,117,736	10,900,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% ⁽⁶⁾		11,869,628	11,524,231	11,822,149
UP Support Services, Inc.	02/08/2015	Oil and Gas	17.00% ⁽⁶⁾		24,061,922	23,708,609	24,061,922
Veritext Corp.	12/31/2015	Business Services	14.00% ⁽⁶⁾		15,000,000	14,660,342	15,000,000
Veritext Corp. ⁽⁹⁾	12/31/2012	Business Services			12,000,000	11,700,000	12,000,000
Total Subordinated Debt/Corporate Notes						231,254,065	241,952,885

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Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Preferred Equity Partnership Interests 2.8%							
AH Holdings, Inc. (American Surgical Holdings, Inc.)		Healthcare, Education and Childcare	6.00%		211	\$ 500,000	\$ 500,750
AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			319	318,896	
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		909	909,248	1,245,661
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense	12.00%		4,137,240	4,137,240	5,681,642
PAS Tech Holdings, Inc. Series A-1		Aerospace and Defense	8.00%		20,000	1,980,000	2,040,709
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,538,408
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas	8.00%		101,175	2,738,050	961,017
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation	8.00%		1,824,167	1,824,167	1,804,391
Total Preferred Equity/Partnership Interests						14,405,427	14,458,398
Common Equity/ Warrants/Partnership Interests 9.0%							
AH Holdings, Inc. (American Surgical Holdings, Inc.) (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			1,333	3,000,000	3,000,000
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,856	18,556	531,427
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	2,580,158	7,446,464
DirectBuy Investors L.P. (DirectBuy Holdings, Inc.)		Consumer Products			30,000	1,350,000	1,350,000
EnviroSolutions, Inc.		Environmental Services			24,375	1,506,075	2,170,935
EnviroSolutions, Inc. (Warrants)		Environmental Services			49,005	3,027,906	4,364,091
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense			457,322	454,030	148,032
Kadmon Holdings, L. L.C., Class A (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			10,799	1,236,832	1,805,212
Kadmon Holdings, L.L.C., Class D (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			10,799	1,028,807	1,028,807
	04/27/2020	Education			1,267	779,920	407,499

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Learning Care Group (US) Inc. (Warrants)					
Magnum Hunter Resources Corporation		Oil and Gas	1,055,932	2,464,999	9,049,337
PAS Tech Holdings, Inc.		Aerospace and Defense	20,000	20,000	261,064
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media	4,325	1,306,167	1,370,149
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media	531		168,219
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	427,922
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport	137,923	2,111,588	4,842,886
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance	2	9,843	1,397,025
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas	110,742	1,107	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation	9,166	9,166	
VText Holdings, Inc. (Veritext Corp.)		Business Services	35,526	4,050,000	6,147,505
Total Common Equity/Warrants/Partnership Interests				24,984,554	45,916,574
Investments in Non-Controlled, Non-Affiliated Portfolio Companies				\$ 698,256,084	\$ 731,730,316

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****MARCH 31, 2011****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Investments in Non-Controlled, Affiliated Portfolio Companies 3.1% ^{(1),(2)}							
Second Lien Secured Debt 1.5%							
Performance, Inc. (Performance Holdings, Inc.)	01/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	7.25%	L+625 ⁽⁸⁾	\$ 8,000,000	\$ 8,000,000	\$ 7,748,000
Subordinated Debt/Corporate Notes 1.2%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% ⁽⁶⁾		6,295,013	6,125,050	6,200,588
Common Equity/Partnership Interest 0.4%							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			37,500	3,750,000	1,971,328
Investments in Non-Controlled, Affiliated Portfolio Companies						17,875,050	15,919,916
Investments in Controlled, Affiliated Portfolio Companies 2.1% ^{(1),(2)}							
First Lien Secured Debt 1.6%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		7,200,000	7,200,000	7,998,020
Subordinated Debt/Corporate Notes 0.3%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		1,800,000	1,800,000	1,710,734
Preferred Equity 0.2%							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,291,246
Common Equity 0.0%							
SuttonPark Holdings, Inc.		Business Services			100	100	
Investments in Controlled, Affiliated Portfolio Companies						11,000,100	11,000,000
Total Investments 147.6%						727,131,234	758,650,232
Cash Equivalents 0.3%						1,546,429	1,546,429
Total Investments and Cash Equivalents 147.9%						\$ 728,677,663	\$ 760,196,661

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Liabilities in Excess of Other Assets (47.9%)	(246,176,823)
Net Assets 100.0%	\$ 514,019,838

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities.
- (3) Valued based on our accounting policy (see Note 2 to our consolidated financial statements).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offer Rate (LIBOR or L) or Prime Rate (Prime or P).
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, usually to qualified institutional buyers.
- (6) Coupon is payable in cash and/or payable in-kind (PIK).
- (7) Non-income producing securities.
- (8) Coupon is subject to a LIBOR or a Prime rate floor or cap, as applicable.
- (9) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the United States.

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Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2010**

Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies			165.9% ⁽²⁾				
First Lien Secured Debt							
59.3%							
Airvana Networks Solution, Inc.	08/27/2014	Communications	11.00%	L+900 ⁽⁸⁾	\$ 13,583,333	\$ 13,316,337	\$ 13,447,500
Birch Communications, Inc.	06/21/2015	Telecommunications	15.00%	L+1,300 ⁽⁸⁾	16,363,636	15,786,257	16,363,636
Birch Communications, Inc.	01/31/2011	Telecommunications			3,636,364	3,636,364	3,636,364
CEVA Group PLC ^{(5),(10)}	10/01/2016	Logistics	11.63%		7,500,000	7,305,603	7,912,500
CEVA Group PLC ^{(5),(10)}	04/01/2018	Logistics	11.50%		1,000,000	987,774	1,045,000
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 ⁽⁸⁾	9,250,000	8,765,468	9,296,250
Columbus International, Inc. ^{(5),(10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,048,000
EnviroSolutions, Inc. ⁽⁹⁾	07/29/2013	Environmental Services			6,666,666	6,666,666	6,666,666
Fairway Group Acquisition Company	10/01/2014	Grocery	12.00%	L+950 ⁽⁸⁾	11,905,025	11,650,744	11,845,500
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.62%	L+225	8,752,500	8,752,500	3,894,863
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	24,875,000	24,402,321	24,875,000
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.71%	L+225	9,744,595	9,744,595	7,874,850
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	L+675 ⁽⁸⁾	19,000,000	17,866,826	18,240,000
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,631	25,481,512	26,052,631
Mattress Holding, Corp.	01/18/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.54%		3,844,931	3,844,931	3,345,090
Penton Media, Inc.	08/01/2014	Other Media	5.00% ⁽⁶⁾	L+400 ⁽⁸⁾	9,829,738	8,432,037	6,995,500
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+650 ⁽⁸⁾	66,801	66,801	64,263
Questex Media Group LLC ⁽⁹⁾	12/16/2012	Other Media			200,404	200,404	192,789
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 ⁽⁸⁾	29,500,000	28,756,343	29,702,813
Three Rivers Pharmaceutical, L.L.C.	10/22/2011	Healthcare, Education and Childcare	15.25%	L+1,300 ⁽⁸⁾	25,000,000	21,861,968	21,861,968
				P+1,200			
Yonkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,381,967	4,882,500
Total First Lien Secured Debt						231,907,418	229,243,683

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2010**

Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Second Lien Secured Debt							
38.6 %							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.43%	L+600	\$ 13,600,000	\$ 13,216,845	\$ 11,696,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.39%	L+700	12,000,000	11,776,589	10,410,000
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600 ⁽⁸⁾	6,237,317	6,237,317	5,950,400
Generics International (U.S.), Inc.	04/30/2015	Healthcare, Education and Childcare	7.79%	L+750	12,000,000	11,958,469	11,940,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% ⁽⁶⁾	L+700 ⁽⁸⁾	2,570,357	2,570,357	2,594,775
Mohegan Tribal Gaming Authority	11/01/2017	Hotels, Motels, Inns and Gaming	11.50%		5,000,000	4,825,762	4,475,000
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 ⁽⁸⁾	3,219,319	3,219,319	2,675,254
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% ⁽⁶⁾	L+850 ⁽⁸⁾	1,773,703	1,773,703	1,349,788
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,600,000
Saint Acquisition Corp. ⁽⁵⁾	05/15/2015	Transportation	8.13%	L+775	10,000,000	9,950,907	9,325,000
Saint Acquisition Corp. ⁽⁵⁾	05/15/2017	Transportation	12.50%		19,000,000	17,039,991	19,118,750
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.05% ⁽⁶⁾	L+575	21,500,000	19,211,412	19,887,500
Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	7.26% ⁽⁶⁾	L+700	22,500,000	22,490,129	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.29% ⁽⁶⁾	L+600	17,811,488	17,341,134	16,564,684
Total Second Lien Secured Debt						151,611,934	149,087,151
Subordinated Debt/Corporate Notes 56.1%							
Affinion Group Holdings, Inc. ⁽⁵⁾	11/15/2015	Consumer Products	11.63%		10,000,000	9,855,000	9,855,000
Aquilex Holdings, LLC ⁽⁵⁾	12/15/2016	Diversified / Conglomerate Services	11.13%		18,885,000	18,380,337	18,696,150
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% ⁽⁶⁾		8,109,468	7,973,429	8,170,289
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% ⁽⁶⁾		20,720,892	20,359,932	21,425,401
Da-Lite Screen Company, Inc. ⁽⁵⁾	04/01/2015	Home and Office Furnishings, Housewares and Durable Consumer Products	12.50%		25,000,000	24,379,843	25,625,000
i2 Holdings Ltd. ⁽¹⁰⁾	06/06/2014	Aerospace and Defense	14.75% ⁽⁶⁾		23,283,292	22,970,124	23,283,292
Learning Care Group (U.S.) Inc.	06/30/2016	Education	15.00% ⁽⁶⁾		3,947,368	3,194,611	3,592,105
MedQuist, Inc.	10/15/2016	Business Services	13.00% ⁽⁶⁾		19,000,000	18,430,000	18,430,000
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		10,000,000	9,055,731	7,900,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% ⁽⁶⁾		11,721,019	11,361,858	11,838,229
Trizetto Group, Inc.	10/01/2016	Insurance	13.50% ⁽⁶⁾		20,501,960	20,331,704	21,117,018
UP Acquisition Sub., Inc.	02/08/2015	Oil and Gas	15.50% ⁽⁶⁾		21,098,000	20,642,507	20,148,590
Veritext Corp.	12/31/2015	Business Services	14.00% ⁽⁶⁾		15,000,000	14,636,487	15,000,000
Veritext Corp. ⁽⁹⁾	12/31/2012	Business Services			12,000,000	11,700,000	12,000,000

Total Subordinated Debt/Corporate Notes

213,271,563

217,081,074

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Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2010**

Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Preferred Equity/Partnership Interests 2.0%							
AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			319	\$ 318,896	\$
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		797	797,288	1,070,352
CT Technologies Holdings, L.L.C. (CT Technologies Intermediate Holdings, Inc.)		Business Services	9.00%		144,375	144,376	148,909
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense	12.00%		4,137,240	4,137,240	3,869,263
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,495,885
UP Holdings, Inc., Class A-1 (UP Acquisitions Sub, Inc.)		Oil and Gas	8.00%		91,608	2,499,066	495,851
Total Preferred Equity/Partnership Interests						9,894,692	7,766,080
Common Equity/Warrants/Partnership Interests 9.9%							
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			1,333	3,000,000	3,000,000
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,627	16,271	387,012
CT Technologies Holdings, L.L.C. (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	3,200,000	7,987,755
EnviroSolutions, Inc.		Environmental Services			24,375	1,506,076	1,998,008
EnviroSolutions, Inc. (Warrants)		Environmental Services			49,005	3,027,906	4,016,429
i2 Holdings Ltd. ⁽¹⁰⁾		Aerospace and Defense			457,322	454,030	
Kadmon Holdings, L.L.C., Class A (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			8,999	1,780,693	1,780,693
Kadmon Holdings, L.L.C., Class D (Three Rivers Pharmaceutical, L.L.C.)		Healthcare, Education and Childcare			8,999	857,339	857,339
Learning Care Group (U.S.), Inc. (Warrants)	04/27/2020	Education			1,267	779,920	633,308
Magnum Hunter Resources Corporation		Oil and Gas			1,055,932	2,464,999	4,350,440
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,167	1,081,683
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		132,803
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	973,875
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,111,588	4,589,906
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,843	1,688,629
UP Holdings, Inc. (UP Acquisitions Sub, Inc.)		Oil and Gas			91,608	916	

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VText Holdings, Inc.	Business Services	35,526	4,050,000	4,634,758
Total Common Equity/Warrants/Partnership Interests			24,595,148	38,112,638
Investments in Non-Controlled, Non-Affiliated Portfolio Companies			\$ 631,280,755	\$ 641,290,626

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Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2010**

Issuer Name	Maturity	Industry	Current Coupon	Basis Points Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Investments in Non-Controlled, Affiliated Portfolio Companies 4.0%^{(1),(2)}							
Second Lien Secured Debt 2.0%							
Performance, Inc.	01/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	7.50%	L+650 ⁽⁸⁾	\$ 8,000,000	\$ 8,000,000	\$ 7,584,000
Subordinated Debt/Corporate Notes 1.5%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% ⁽⁶⁾		5,848,176	5,677,648	5,745,832
Common Equity/Partnership Interest 0.5%⁽⁷⁾							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			37,500	3,750,000	2,103,848
Investments in Non-Controlled, Affiliated Portfolio Companies						17,427,648	15,433,680
Investments in Controlled, Affiliated Portfolio Companies 2.1%^{(1),(2)}							
First Lien Secured Debt 1.4%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		4,800,000	4,800,000	5,352,000
Subordinated Debt/Corporate Notes 0.3%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		1,200,000	1,200,000	1,142,398
Preferred Equity 0.4%⁽⁷⁾							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,505,602
Common Equity 0.0%⁽⁷⁾							
SuttonPark Holdings, Inc.		Business Services			100	100	100
Investments in Controlled, Affiliated Portfolio Companies						8,000,100	8,000,100
Total Investments 172.0%						656,708,503	664,724,406
Cash and Cash Equivalents 0.5%					1,814,451	1,814,451	1,814,451
Total Investments and Cash and Cash Equivalents 172.5%						\$ 658,522,954	\$ 666,538,857
Liabilities in Excess of Other Assets (72.5%)							(279,963,634)
Net Assets 100.0%							\$ 386,575,223

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities.
- (3) Valued based on our accounting policy (see Note 2 to our consolidated financial statements).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or Prime Rate.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, usually to qualified institutional buyers.
- (6) Coupon is payable in cash and/or PIK.
- (7) Non-income producing securities.
- (8) Coupon is subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the United States.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

(Unaudited)

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation on January 11, 2007. PennantPark Investment is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company under the Investment Company Act of 1940 (the 1940 Act). PennantPark Investment's objective is to generate both current income and capital appreciation through debt and equity investments. PennantPark Investment invests primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and equity investments.

On April 24, 2007, PennantPark Investment closed its initial public offering and its common stock trades on the NASDAQ Global Select Market under the symbol PNNT . PennantPark Investment entered into an investment management agreement (the Investment Management Agreement) with PennantPark Investment Advisers, LLC (the Investment Adviser or PennantPark Investment Advisers), an external adviser that manages our day-to-day operations. PennantPark Investment also entered into an administration agreement (the Administration Agreement) with PennantPark Investment Administration, LLC (the Administrator or PennantPark Investment Administration) that 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 SBIC LP under a separate investment management agreement. PennantPark Investment, through the Administrator, also provides similar services to SBIC LP and our controlled affiliate SuttonPark Holdings, Inc. and its subsidiaries (SPH) under separate administration agreements. See Note 3.

SBIC LP and its general partner, SBIC GP, were organized in Delaware as a limited partnership and a limited liability company, respectively, on May 7, 2010 and began operations on June 11, 2010. SBIC LP received a license from the Small Business Administration (SBA) to operate as a Small Business Investment Company (SBIC) effective July 30, 2010 under Section 301(c) of the Small Business Investment Act of 1958 (the 1958 Act). Our subsidiaries are consolidated and wholly owned by PennantPark Investment. The SBIC LP's investment objective is substantially similar to PennantPark Investment, generally co-investing in SBA eligible businesses that meet the investment criteria of PennantPark Investment.

PennantPark Investment completed its initial public offering of common stock in 2007 and issued 21.0 million shares raising \$294.1 million in net proceeds. Since PennantPark Investment's initial public offering, it has sold 24.3 million shares of common stock through follow-on public offerings, resulting in net proceeds of \$242.5 million. On February 11, 2011, PennantPark Investment sold 9.2 million shares in a follow-on public offering including the overallotment, resulting in net proceeds of \$108.3 million.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of our consolidated assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reported period. Actual results could differ from these estimates. We have reclassified certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the Accounting Standards Codification (ASC) serve as a single source of accounting literature and are not intended to change accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the consolidated financial statements are issued.

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

Our significant accounting policies consistently applied are as follows:

(a) ***Investment Valuations***

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

We expect that there will not be readily available market values for many of our investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy, described herein, 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 fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material. See Note 5.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2011

(Unaudited)

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 that of the independent valuation firms and responds and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) The board of directors discusses these valuations and determines the fair value of each investment in our portfolio in g