

PENNANTPARK INVESTMENT CORP

Form 10-Q

August 08, 2016

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

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, 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 (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 large accelerated filer, 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 August 8, 2016 was 71,060,836.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016

TABLE OF CONTENTS

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Statements of Assets and Liabilities as of June 30, 2016 (unaudited) and September 30, 2015 4

Consolidated Statements of Operations for the three and nine months ended June 30, 2016 and 2015 (unaudited) 5

Consolidated Statements of Changes in Net Assets for the nine months ended June 30, 2016 and 2015 (unaudited) 6

Consolidated Statements of Cash Flows for the nine months ended June 30, 2016 and 2015 (unaudited) 7

Consolidated Schedules of Investments as of June 30, 2016 (unaudited) and September 30, 2015 8

Notes to Consolidated Financial Statements (unaudited) 15

Report of Independent Registered Public Accounting Firm 25

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 26

Item 3. Quantitative and Qualitative Disclosures About Market Risk 33

Item 4. Controls and Procedures 33

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 34

Item 1A. Risk Factors 34

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 34

Item 3. Defaults Upon Senior Securities 34

Item 4. Mine Safety Disclosures 34

Item 5. Other Information 34

Item 6. Exhibits 35

SIGNATURES 36

Table of Contents

PART I CONSOLIDATED FINANCIAL INFORMATION

We are filing this Quarterly Report on 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 under the Small Business Investment Act of 1958, as amended, or the 1958 Act ; Credit Facility refers to our multi-currency, senior secured revolving credit facility, as amended and restated; 2025 Notes refers to our 6.25% senior notes due 2025; 2019 Notes refers to our 4.50% notes due 2019; our Notes refers, 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**

| | June 30, 2016 (unaudited) | September 30, 2015 |
|---|--|---------------------------|
| Assets | | |
| Investments at fair value | | |
| Non-controlled, non-affiliated investments (cost \$916,933,385 and \$1,138,155,969, respectively) | \$ 904,615,102 | \$ 1,096,719,079 |
| Non-controlled, affiliated investments (cost \$261,810,939 and \$133,693,295, respectively) | 208,959,772 | 95,503,104 |
| Controlled, affiliated investments (cost \$180,718,378 and \$152,387,898, respectively) | 123,006,217 | 106,825,650 |
| Total of investments (cost \$1,359,462,702 and \$1,424,237,162, respectively) | 1,236,581,091 | 1,299,047,833 |
| Cash and cash equivalents (cost \$38,106,415 and \$49,637,415, respectively) | 37,872,854 | 49,619,256 |
| Interest receivable | 7,396,797 | 7,590,197 |
| Prepaid expenses and other assets | 3,564,680 | 8,790,944 |
| Total assets | 1,285,415,422 | 1,365,048,230 |
| Liabilities | | |
| Distributions payable | 19,897,034 | 20,430,492 |
| Payable for investments purchased | | 3,591,177 |
| Credit Facility payable (cost \$117,143,923 and \$136,864,300, respectively) (See Notes 5 and 10) | 101,067,312 | 132,356,860 |
| 2019 Notes payable (par \$250,000,000) (See Notes 5 and 10) | 249,675,000 | 253,102,500 |
| SBA debentures payable (par \$197,500,000 and \$150,000,000, respectively) (See Notes 5 and 10) | 193,073,622 | 146,269,957 |
| 2025 Notes payable (par \$71,250,000) (See Notes 5 and 10) | 70,566,000 | 71,136,000 |
| Base management fee payable, net (See Note 3) | 5,200,087 | 6,602,029 |
| Performance-based incentive fee payable, net (See Note 3) | 3,393,005 | 5,007,792 |
| Interest payable on debt | 6,377,581 | 7,638,514 |
| Accrued other expenses | 611,269 | 2,322,367 |
| Total liabilities | 649,860,910 | 648,457,688 |
| Commitments and contingencies (See Note 11) | | |
| Net assets | | |

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

| | | | |
|--|-------------------------|-----------|----------------------|
| Common stock, 71,060,836 and 72,966,043 shares issued and outstanding, respectively. | | | |
| Par value \$0.001 per share and 100,000,000 shares authorized. | 71,061 | | 72,966 |
| Paid-in capital in excess of par value | 822,532,643 | | 834,711,229 |
| Distributions in excess of net investment income | (17,850,376) | | (13,424,886) |
| Accumulated net realized (loss) gain on investments | (63,173,143) | | 18,919,305 |
| Net unrealized depreciation on investments | (123,111,284) | | (125,207,012) |
| Net unrealized depreciation on debt | 17,085,611 | | 1,518,940 |
| Total net assets | \$ 635,554,512 | \$ | 716,590,542 |
| Total liabilities and net assets | \$ 1,285,415,422 | \$ | 1,365,048,230 |
| Net asset value per share | \$ 8.94 | \$ | 9.82 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--|------------------------------------|-------------------|-----------------------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Investment income: | | | | |
| From non-controlled, non-affiliated investments: | | | | |
| Interest | \$ 26,432,244 | \$ 31,722,226 | \$ 81,300,064 | \$ 101,811,852 |
| Other income | 2,151,427 | 3,138,382 | 9,679,096 | 9,535,685 |
| From non-controlled, affiliated investments: | | | | |
| Interest | 3,458,232 | 4,263,709 | 8,956,381 | 7,000,896 |
| Other income | 61,094 | 159,437 | 80,521 | 159,437 |
| From controlled, affiliated investments: | | | | |
| Interest | 3,436,797 | 1,357,778 | 9,895,449 | 3,998,887 |
| Total investment income | 35,539,794 | 40,641,532 | 109,911,511 | 122,506,757 |
| Expenses: | | | | |
| Base management fee (See Note 3) | 6,190,579 | 6,497,136 | 18,811,434 | 20,093,624 |
| Performance-based incentive fee (See Note 3) | 4,039,292 | 5,163,582 | 12,607,547 | 15,556,767 |
| Interest and expenses on debt (See Note 10) | 7,005,077 | 6,616,779 | 20,674,327 | 19,699,606 |
| Administrative services expenses (See Note 3) | 898,167 | 855,313 | 2,666,167 | 2,562,033 |
| Other general and administrative expenses | 899,508 | 854,397 | 2,721,700 | 2,367,661 |
| Expenses before management fee waiver and provision for taxes | 19,032,623 | 19,987,207 | 57,481,175 | 60,279,691 |
| Management Fee waiver (See Note 3) | (1,636,779) | | (5,027,041) | |
| Provision for taxes | 350,000 | | 2,000,000 | |
| Net expenses | 17,745,844 | 19,987,207 | 54,454,134 | 60,279,691 |
| Net investment income | 17,793,950 | 20,654,325 | 55,457,377 | 62,227,066 |
| Realized and unrealized gain (loss) on investments and debt: | | | | |
| Net realized (loss) gain on investments | (45,507,467) | 13,820,350 | (82,092,448) | 31,936,928 |
| Net change in unrealized appreciation (depreciation) on: | | | | |
| Non-controlled, non-affiliated investments | 50,184,115 | (24,919,481) | 27,230,048 | (102,855,290) |
| Controlled and non-controlled, affiliated investments | 7,770,408 | (5,260,674) | (25,134,320) | (5,258,057) |
| | (2,408,132) | 641,430 | 15,566,671 | 2,318,310 |

Debt (appreciation) depreciation (See Notes 5 and 10)

| | | | | |
|---|------------|--------------|------------|---------------|
| Net change in unrealized appreciation (depreciation) on investments and debt | 55,546,391 | (29,538,725) | 17,662,399 | (105,795,037) |
|---|------------|--------------|------------|---------------|

| | | | | |
|--|------------|--------------|--------------|--------------|
| Net realized and unrealized gain (loss) from investments and debt | 10,038,924 | (15,718,375) | (64,430,049) | (73,858,109) |
|--|------------|--------------|--------------|--------------|

| | | | | |
|--|---------------|--------------|----------------|-----------------|
| Net increase (decrease) in net assets resulting from operations | \$ 27,832,874 | \$ 4,935,950 | \$ (8,972,672) | \$ (11,631,043) |
|--|---------------|--------------|----------------|-----------------|

| | | | | |
|---|---------|---------|-----------|-----------|
| Net increase (decrease) in net assets resulting from operations per common share (See Note 7) | \$ 0.39 | \$ 0.07 | \$ (0.12) | \$ (0.16) |
|---|---------|---------|-----------|-----------|

| | | | | |
|--|---------|---------|---------|---------|
| Net investment income per common share | \$ 0.25 | \$ 0.28 | \$ 0.77 | \$ 0.83 |
|--|---------|---------|---------|---------|

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Nine Months Ended June 30, | |
|---|-----------------------------------|---------------------|
| | 2016 | 2015 |
| Net decrease in net assets from operations: | | |
| Net investment income | \$ 55,457,377 | \$ 62,227,066 |
| Net realized (loss) gain on investments | (82,092,448) | 31,936,928 |
| Net change in unrealized appreciation (depreciation) on investments | 2,095,728 | (108,113,347) |
| Net change in unrealized depreciation on debt | 15,566,671 | 2,318,310 |
| Net decrease in net assets resulting from operations | (8,972,672) | (11,631,043) |
| Distributions to stockholders: | (59,882,867) | (62,844,746) |
| Capital transactions: | | |
| Repurchase of common stock (See Note 12) | (12,180,491) | (7,990,983) |
| Net decrease in net assets | (81,036,030) | (82,466,772) |
| Net assets: | | |
| Beginning of period | 716,590,542 | 828,009,949 |
| End of period | \$ 635,554,512 | \$ 745,543,177 |
| Distributions in excess of net investment income, at end of period | \$ (17,850,376) | \$ (12,420,260) |
| Capital share activity: | | |
| Shares of common stock repurchased | (1,905,207) | (833,213) |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Nine Months Ended June 30, | |
|---|-----------------------------------|---------------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net decrease in net assets resulting from operations | \$ (8,972,672) | \$ (11,631,043) |
| Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities: | | |
| Net change in net unrealized (appreciation) depreciation on investments | (2,095,728) | 108,113,347 |
| Net change in unrealized depreciation on debt | (15,566,671) | (2,318,310) |
| Net realized loss (gain) on investments | 82,092,448 | (31,936,928) |
| Net accretion of discount and amortization of premium | (3,992,102) | (4,937,779) |
| Purchases of investments | (307,264,571) | (344,808,702) |
| Payment-in-kind income | (10,392,583) | (7,693,992) |
| Proceeds from dispositions of investments | 304,104,246 | 289,545,505 |
| Decrease (increase) in interest receivable | 193,400 | (147,839) |
| Decrease (increase) in prepaid expenses and other assets | 5,226,264 | (521,890) |
| (Decrease) increase in payable for investments purchased | (3,591,177) | 43,190,530 |
| (Decrease) increase in interest payable on debt | (1,260,933) | 4,237,937 |
| Amortization of deferred financing costs | 455,540 | 413,353 |
| (Decrease) increase in base management fee payable, net | (1,401,942) | 112,034 |
| (Decrease) increase in performance-based incentive fee payable, net | (1,614,787) | 540,828 |
| Decrease in accrued other expenses | (1,711,098) | (708,245) |
| Net cash provided by operating activities | 34,207,634 | 41,448,806 |
| Cash flows from financing activities: | | |
| Repurchase of common stock | (12,180,491) | (7,990,983) |
| Distributions paid to stockholders | (60,416,325) | (63,078,045) |
| Borrowings under SBA debentures | 47,500,000 | |
| Deferred financing costs | (1,151,875) | |
| Borrowings under Credit Facility | 365,664,923 | 467,000,000 |
| Repayments under Credit Facility | (385,385,300) | (420,689,600) |
| Net cash used by financing activities | (45,969,068) | (24,758,628) |
| Net (decrease) increase in cash equivalents | (11,761,434) | 16,690,178 |
| Effect of exchange rate changes on cash | 15,032 | 120,112 |
| Cash and cash equivalents, beginning of period | 49,619,256 | 66,518,682 |

| | | |
|--|----------------------|----------------------|
| Cash and cash equivalents, end of period | \$ 37,872,854 | \$ 83,328,972 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 21,479,719 | \$ 15,048,316 |
| Taxes paid | \$ 2,154,226 | \$ 60,808 |
| Non-cash exchanges and conversions | \$ 60,438,396 | \$ 19,765,183 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****JUNE 30, 2016****(Unaudited)**

| Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index ⁽⁴⁾ | Par / Shares | Cost | Fair Value |
|--|----------------------------------|----------------------------------|-----------------------------------|--|-------------------------|---------------|-------------------|
| Investments in Non-Controlled, Non-Affiliated Portfolio Companies | | | 142.3% ^{(1), (2)} | | | | |
| Unsecured Debt | | | 43.2% | | | | |
| ...ing I, LLC | 12/21/2020 | Hotels, Motels, Inns and Gaming | 9.25% | L+825 | 23,393,344 | \$ 23,113,334 | \$ 21,90 |
| ... Bros., Co., | 06/03/2021 | Consumer Products | 7.00% | L+575 | 9,206,250 | 9,037,320 | 9,04 |
| ... e A | | | | | | | |
| ... Bros., Co., | 06/03/2021 | Consumer Products | 13.50% | L+1,225 | 9,262,500 | 9,088,675 | 9,10 |
| ... e B | | | | | | | |
| ...der Sleep | 10/21/2020 | Consumer Products | 9.00% | L+800 | 4,372,074 | 4,321,452 | 4,28 |
| ...ts, LLC | | | | | | | |
| ...r Specialists, | 06/30/2020 | Building Materials | 9.00% | L+800 | 25,113,896 | 24,902,143 | 25,11 |
| ...e Solutions | 02/19/2021 | Chemicals, Plastics and Rubber | 10.00% | L+900 | 14,522,529 | 14,269,911 | 14,16 |
| ... L.P. | | | | | | | |
| ...Atlantis | 01/15/2021 | Retail | 10.00% | L+900 | 38,883,238 | 38,353,399 | 38,88 |
| ...gs, LLC | | | | | | | |
| ...Mineral | 12/16/2019 | Mining, Steel, Iron and Non- | 11.50% | | 14,250,000 | 14,150,328 | 12,39 |
| ...g Corp. ⁽⁵⁾ | | Precious Metals | | | | | |
| ...shaw US | 06/18/2019 | Electronics | 9.00% | L+750 | 13,252,937 | 13,173,859 | 13,25 |
| ...g Corp. | | | | | | | |
| ...Defense | 04/21/2017 | Aerospace and Defense | 9.00% | L+750 | 18,306,549 | 17,973,854 | 18,21 |
| ...ns, Inc. | | | | | | | |
| ...n | 09/28/2018 | Hotels, Motels, Inns and Gaming | 13.01% | L+1,250 ⁽⁸⁾ | 20,017,246 | 30,213,895 | 26,64 |
| ...tional (UK) | | | | | | | |
| ...d ^{(10), (12), (13)} | | | (PIK 0.50%) | | | | |
| ...Manufacturing, | 12/28/2020 | Manufacturing / Basic Industries | 11.25% | L+1,075 | 30,590,164 | 30,025,040 | 30,54 |
| ...ns Limited | 02/12/2020 | Buildings and Real Estate | 11.09% | L+1,050 ⁽⁸⁾ | 22,562,950 | 36,015,363 | 29,28 |
| ... ⁽¹³⁾ | | | | | | | |
| ...d Acquisition, | 08/13/2021 | Healthcare, Education and | 10.00% | L+900 | 8,673,438 | 8,673,437 | 8,67 |
| ... | | Childcare | | | | | |
| ...ell Services, | 05/02/2019 | Oil and Gas | 12.00% ⁽⁷⁾ | L+1,150 | 14,674,286 | 14,466,463 | 13,19 |
| First Lien | | | | | | 287,778,473 | 274,72 |
| and Debt | | | | | | | |

| | | | | | | | |
|---------------------------------|------------|--|-------------|---------|------------|-------------|--------|
| First Lien | | | | | | | |
| and Debt 75.2% | | | | | | | |
| Can Gilsonite ny (5) | 09/01/2017 | Diversified Natural Resources, Precious Metals and Minerals | 11.50% | | 25,400,000 | 25,400,000 | 15,24 |
| Capital ation (13) | 03/04/2022 | Financial Services | 13.00% | | 19,000,000 | 18,744,147 | 19,00 |
| Oil & Gas, | 11/01/2018 | Oil and Gas | (6) | | 26,925,057 | 25,422,260 | 14,80 |
| d Berger Co. | 09/30/2020 | Distribution | 11.00% | L+1,000 | 41,250,000 | 39,330,448 | 38,36 |
| mediate ortation 100,) | 03/01/2017 | Cargo Transport | (6) | | 4,632,948 | 3,739,797 | 1,66 |
| cosmetics gs, Inc. | 07/31/2019 | Consumer Products | 11.00% | L+1,000 | 34,000,000 | 33,556,766 | 34,17 |
| | 10/29/2019 | Hotels, Motels, Inns and Gaming | 13.00% | L+1,175 | 51,775,000 | 51,317,866 | 51,77 |
| inment, Inc. | | | | | | | |
| age Line, LLC | 07/07/2022 | Personal, Food and Miscellaneous Services | 10.75% | L+975 | 40,312,500 | 39,757,357 | 39,97 |
| uth, Inc. | 10/22/2021 | Printing and Publishing | 11.50% | L+1,050 | 26,425,000 | 25,907,825 | 25,89 |
| x Acquisition, | 07/07/2021 | Business Services | 11.75% | L+1,050 | 41,250,000 | 40,914,722 | 40,83 |
| holdings d Partnership | 12/17/2021 | Hotels, Motels, Inns and Gaming | 13.00% | L+1,200 | 75,000,000 | 75,000,000 | 75,70 |
| Media, Inc. | 10/02/2020 | Media | 9.00% | L+775 | 18,270,159 | 18,091,545 | 17,72 |
| d Legal | 07/01/2020 | Personal, Food and | 10.25% | L+900 | 56,750,000 | 56,176,571 | 56,18 |
| es, Inc. | | Miscellaneous Services | | | | | |
| Security | 07/01/2022 | Personal, Food and | 10.47% | L+875 | 28,500,000 | 28,126,488 | 28,76 |
| es Borrower, | | Miscellaneous Services | | | | | |
| ayer | 01/30/2023 | Business Services | 10.75% | L+975 | 18,375,000 | 17,756,552 | 18,00 |
| ition Corp. | | | | | | | |
| Second Lien | | | | | | 499,242,344 | 478,11 |
| and Debt | | | | | | | |
| Financed | | | | | | | |
| Corporate | | | | | | | |
| 16.0% | | | | | | | |
| s ologies, LLC | 02/15/2019 | Financial Services | 13.00% | L+1,200 | 8,930,000 | 8,834,499 | 8,79 |
| e nmental LLC | 08/20/2021 | Environmental Services | 12.00% | | 32,675,553 | 32,040,288 | 32,34 |
| Infonet, Inc. | 10/26/2018 | Personal, Food and Miscellaneous Services | 13.50% | | 10,983,467 | 10,875,320 | 10,13 |
| | | | (PIK 2.25%) | | | | |
| n Trading d (10), (12), (13) | 02/19/2018 | Healthcare, Education and Childcare | 14.50% | L+1,000 | 8,250,821 | 12,118,330 | 10,94 |
| | | | (PIK 6.00%) | | | | |

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

| | | | | | | |
|-------------------------------|------------|-------------------------------------|--------|------------|-------------|--------|
| l-Reilly, LLC | 04/15/2020 | Other Media | 12.00% | 26,500,000 | 26,622,740 | 26,25 |
| holdings, Inc. | 05/13/2021 | Manufacturing / Basic Industries | 11.00% | 13,300,000 | 13,080,883 | 13,30 |
| Subordinated Corporate | | | | | 103,572,060 | 101,77 |
| | | | | | | |
| Preferred /Partnership | | | | | | |
| ts 1.3% | | | | | | |
| holdings, Inc. | | Healthcare, Education and Childcare | 6.00% | 211 | 500,000 | 17 |
| s | | Financial Services | | 949 | 949,050 | 97 |
| ologies | | | | | | |
| gs Corp. | | | | | | |
| gint | | Electronics | 8.00% | 2,375 | 2,088,121 | 2,38 |
| ologies | | | | | | |
| gs, LLC | | | | | | |
| ldco, LLC | | Other Media | 8.00% | 3,591 | | 3 |
| smetics US, | | Consumer Products | 8.00% | 3,397 | 2,511,333 | 3,21 |
| holdings, Inc. | | Manufacturing / Basic Industries | | 1,197 | 1,197,000 | 1,38 |
| Preferred /Partnership | | | | | 7,245,504 | 8,16 |
| ts | | | | | | |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

| Issuer Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index ⁽⁴⁾ | Par / Shares | Cost | Fair Value ⁽³⁾ |
|---|----------------------------------|--|---------------------------|--|-------------------------|-------------|----------------------------------|
| Common Equity/Partnership Interests/Warrants 6.6%⁽⁶⁾ | | | | | | | |
| Health Holdings, Inc. (Warrants) | 03/23/2021 | Healthcare, Education and Childcare | | | 753 | \$ | \$ |
| Gegeus Technologies Holdings Corp. | | Financial Services | | | 1 | 950 | 97 |
| SP LCG Holdings, Inc. (Warrants) | 05/05/2026 | Education | | | 933 | 586,975 | 967,92 |
| Autumn Times, LLC | | Broadcasting and Entertainment | | | 1,333,330 | 3,000,000 | |
| Cardinal Logistics Holdings LLC (Intermediate Transportation Co., LLC) | | Cargo Transport | | | 137,923 | 2,111,588 | |
| Ascade Environmental Co. (11) | | Environmental Services | | | 23,600 | 2,360,000 | 5,020,91 |
| (Galls) me Investment Holdings, LLC (Convergent Technologies Holdings, LLC) | | Distribution | | | 1,745,639 | 1,745,639 | 3,525,39 |
| Traday Holdings, LLC (Interior Specialists, Inc.) | | Electronics | | | 2,375 | | 1,897,58 |
| | | Building Materials | | | 3,520 | 171,601 | 311,19 |
| | | Other Media | | | 388,378 | | 3,385,51 |

| | | | | | | |
|---|------------|---|--------|-----------|-------------|-------------|
| W Holdco, LLC | | | | | | |
| A. Cosmetics | | Consumer Products | | 252 | 1,860 | 3,519,920 |
| S, Inc. | | Healthcare, Education and Childcare | | 1,079,920 | 1,236,832 | 3,628,550 |
| dmon Holdings, LLC, Class A | | Healthcare, Education and Childcare | | 1,079,920 | 1,028,807 | 1,028,807 |
| dmon Holdings, LLC, Class D | | Distribution | | 19 | 493,280 | 517,140 |
| Mi Acquisition, LLC ⁽¹¹⁾ | | Environmental Services | | 1,000,000 | 1,000,000 | 268,400 |
| riat ecoserv -Invest Holdings, LLC | | Personal, Food and Miscellaneous Services | | 3,000 | 3,000,000 | 5,137,070 |
| dOcean PPL Holdings, Corp. (Pre-Paid Legal Services, Inc.) | | Insurance | | 100,885 | 238,038 | 825,230 |
| triot National, Inc. | | Electronics | | 1,350,000 | 901,263 | 1,202,320 |
| wer Products Holdings, LLC, Class A Units | | Electronics | | 150,000 | 142,300 | 2,540,400 |
| wer Products Holdings, LLC, Class B Units | | Personal Transportation | | 1,870,331 | 148,998 | 130,310 |
| de Group Parent, Inc. | | Manufacturing / Basic Industries | | 1,330 | 133,000 | 918,330 |
| oto Holdings, Inc. | | Printing and Publishing | | 211,797 | 793,873 | 7,018,470 |
| Total Common Equity/Partnership Interests/Warrants | | | | | 19,095,004 | 41,844,500 |
| Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies | | | | | 916,933,385 | 904,615,100 |
| Investments in Non-Controlled, Affiliated Portfolio Companies 32.9% ^{(1), (2)} | | | | | | |
| First Lien Secured Debt 8.4% | | | | | | |
| orfin Industries LLC | 11/25/2020 | Aerospace and Defense | 10.75% | L+975 | 23,581,500 | 23,152,720 |
| orfin Industries LLC | | | | | 1,942,623 | |
| evolver) ⁽⁹⁾ | 11/25/2020 | Aerospace and Defense | | | | |

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

| | | | | | | | |
|--|------------|------------------------|----------------|---------|------------|------------|------------|
| AS Technologies, Inc. | 03/21/2017 | Aerospace and Defense | 6.01% | L+500 | 4,434,345 | 2,901,001 | 3,990,911 |
| | | | (PIK 1.00%) | | | | |
| RAK Acquisition Corp. | 04/30/2018 | Business Services | 12.00% | L+1,050 | 23,014,911 | 22,834,953 | 23,014,911 |
| RAK Acquisition Corp. (evolver) | 11/22/2016 | Business Services | 12.00% | L+1,050 | 3,000,000 | 3,000,000 | 3,000,000 |
| Total First Lien Secured Debt | | | | | | 51,888,674 | 53,587,321 |
| Second Lien Secured Debt 3.5% | | | | | | | |
| Finion Group, Inc. | 10/31/2018 | Consumer Products | 8.50% | L+700 | 18,000,000 | 16,854,084 | 12,895,744 |
| virosolutions Environmental Property Holdings, Inc. | 12/26/2017 | Environmental Services | 9.00% | L+800 | 9,409,740 | 9,285,737 | 9,268,591 |
| Total Second Lien Secured Debt | | | | | | 26,139,821 | 22,164,335 |
| Subordinated Debt/Corporate Notes 11.6% | | | | | | | |
| Finion International Holdings Limited ^{(5), (13)} | 07/30/2018 | Consumer Products | 7.50% | | 9,858,025 | 8,828,676 | 7,689,266 |
| | | | (PIK 7.50%) | | | | |
| irectBuy Holdings, Inc. | 11/05/2019 | Consumer Products | ⁽⁶⁾ | | 14,306,057 | 12,340,534 | 3,004,271 |
| ew Gulf Resources, LLC, convertible note ⁽⁵⁾ | 05/03/2021 | Oil and Gas | 12.50% | | 24,531,068 | 36,287,549 | 35,079,421 |
| | | | (PIK 12.50%) | | | | |
| ervice Champ, Inc. | 10/02/2017 | Auto Sector | 12.50% | | 28,000,000 | 27,805,299 | 27,862,341 |
| Total Subordinated Debt/Corporate Notes | | | | | | 85,262,058 | 73,635,301 |
| Preferred Equity 0.8% ⁽⁶⁾ | | | | | | | |
| AS International Holdings, Inc. | | Aerospace and Defense | | | 53,071 | 20,059,340 | 5,254,021 |
| Common Equity/Partnership Interests/Warrants 8.6% ⁽⁶⁾ | | | | | | | |
| Finion Group Holdings, Inc. | | Consumer Products | | | 859,496 | 30,503,493 | 30,802,201 |
| Finion Group Holdings, Inc., Series C and Series D | | Consumer Products | | | 37,181 | 10,265,972 | 167,311 |
| orfin InvestCo, L.P. | | Aerospace and Defense | | | 11,250 | 1,125,000 | 1,910,601 |

| | | | | | |
|--|------------|------------------------|---------|-------------|------------|
| orfin | | | 11,250 | | |
| vestCo, L.P. | | | | | |
| | | Aerospace and Defense | | | |
| rectBuy | | | 104,719 | 21,492,822 | |
| ldings, Inc. | | Consumer Products | | | |
| rectBuy | | | 15,486 | | |
| ldings, Inc. | | | | | |
| (warrants) | 11/05/2022 | Consumer Products | | | |
| viroSolutions | | | 143,668 | 11,960,702 | 12,005,89 |
| ldings, Inc. | | Environmental Services | | | |
| w Gulf | | | 113,610 | | |
| sources, LLC | | | | | |
| | | Oil and Gas | | | |
| w Service | | | 16,800 | 2,721,600 | 5,597,00 |
| amp | | | | | |
| ldings, Inc. | | Auto Sector | | | |
| GR | | | 119,603 | | |
| management | | | | | |
| company LLC | | | | | |
| | | Oil and Gas | | | |
| AS | | | 53,071 | 202,620 | 769,28 |
| ernational | | | | | |
| ldings, Inc. | | Aerospace and Defense | | | |
| AK | | | 491,755 | 188,837 | 3,066,46 |
| quisition | | | | | |
| orp. | | Business Services | | | |
| Total Common Equity/Partnership Interests/Warrants | | | | 78,461,046 | 54,318,78 |
| Total Investments in Non-Controlled, Affiliated Portfolio | | | | | |
| companies | | | | 261,810,939 | 208,959,77 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

| | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair |
|---|----------------------------------|----------------------|---------------------------|---|-------------------------|---------------|-------------|
| Investments in Controlled, Affiliated Portfolio Companies 19.4%^{(1), (2)} | | | | | | | |
| Secured Debt 14.8% | | | | | | | |
| Energy LLC | 07/18/2019 | Energy and Utilities | 10.00% | L+800 | 82,497,790 | \$ 81,464,183 | \$ 6 |
| | | | (PIK 10.00%) | | | | |
| Digital Displays, LLC | 12/31/2018 | Media | 14.00% | L+1,300 | 25,600,396 | 23,803,645 | 2 |
| | | | (PIK 14.00%) | | | | |
| Lien Secured Debt | | | | | | 105,267,828 | 9 |
| Unsecured Debt 1.3% | | | | | | | |
| Digital Displays, LLC | 07/01/2019 | Media | 16.00% | L+1,500 | 8,335,006 | 8,335,006 | |
| | | | (PIK 16.00%) | | | | |
| Equity 2.3%⁽⁶⁾ | | | | | | | |
| PF Holdings Corp. | | Distribution | | | 143,183 | 14,318,325 | 1 |
| Digital Displays Holdings, Inc. | | Media | 15.00% | | 37,046 | 5,000,000 | |
| Preferred Equity | | | | | | 19,318,325 | 1 |
| Equity 1.0%⁽⁶⁾ | | | | | | | |
| PF Holdings Corp. | | Distribution | | | 65,933 | 24,761,831 | |
| Energy Holdings LLC | | Energy and Utilities | | | 23,141 | 20,824,388 | |
| Digital Displays Holdings, Inc. | | Media | | | 11,100 | 2,211,000 | |
| Common Equity | | | | | | 47,797,219 | |
| Investments in Controlled, Affiliated Portfolio Companies | | | | | | 180,718,378 | 12 |
| Investments 194.6% | | | | | | 1,359,462,702 | 1,23 |
| Cash Equivalents 5.9% | | | | | | | |
| Liquidity Funds, Temp Cash, Institutional Shares | | | | | | 4,007,434 | |

| | | |
|--|------------------|---------|
| n Cash Reserve and Cash | 34,098,981 | 3 |
| and Cash Equivalents | 38,106,415 | 3 |
| ments and Cash Equivalents 200.5% | \$ 1,397,569,117 | \$ 1,27 |
| n Excess of Other Assets (100.5%) | | (63 |
| 100.0% | | \$ 63 |

- (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 generally presumed to be non-controlled when we own 25% or less of the portfolio company's voting securities and controlled when we own more than 25% of the 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 generally 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 rate, or P. 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 to the financial statements).
- (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, 2015**

| | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index ⁽⁴⁾ | Par / Shares | Cost |
|---|----------------------------------|--|---------------------------|--|-------------------------|---------------|
| Non-Controlled, Non-Affiliated Portfolio Companies 153.0%^{(1), (2)} | | | | | | |
| Secured Debt 39.1% | | | | | | |
| Aviation Services LLC | 03/21/2018 | Communications | 11.25% | L+975 | 22,689,469 | \$ 22,109,951 |
| Holdings, Inc. | 04/02/2018 | Retail | 11.97% | L+1,175 ⁽⁸⁾ | 44,459,443 | 43,751,988 |
| Holdings, Inc. (Revolver) ⁽⁹⁾ | 04/02/2018 | Retail | | | 4,371,469 | |
| LLC | | Hotels, Motels, Inns and Gaming | 9.25% | L+825 | 23,573,292 | 23,268,725 |
| | 12/21/2020 | | | | | |
| Products, LLC | | Consumer Products | 9.00% | L+800 | 4,477,500 | 4,418,746 |
| | 10/21/2020 | | | | | |
| ists, Inc. | | Building Materials | 9.00% | L+800 | 25,500,000 | 25,254,194 |
| | 06/30/2020 | | | | | |
| ns NoCal, L.P. | | Chemicals, Plastics and Rubber | 11.00% | L+1,000 | 21,644,154 | 21,333,439 |
| | 08/19/2019 | | | | | |
| nd Linc Energy Finance (USA), Inc. ⁽⁵⁾ | 10/31/2017 | Oil and Gas | 9.63% | | 5,626,850 | 5,626,850 |
| Holding Corp. ⁽⁵⁾ | | Mining, Steel, Iron and Non-Precious Metals | 11.50% | | 14,250,000 | 14,137,010 |
| | 12/16/2019 | | | | | |
| Holding Corp. | 06/18/2019 | Electronics | 9.00% | L+750 | 13,435,343 | 13,339,249 |
| Solutions, Inc. | | Aerospace and Defense | 9.00% | L+750 | 19,704,329 | 19,043,541 |
| | 04/21/2017 | | | | | |
| tional (UK) Limited ^{(10), (12), (13)} | 09/28/2018 | Hotels, Motels, Inns and Gaming | 13.00% | L+1,250 ⁽⁸⁾ | 19,947,600 | 30,053,647 |
| | | | (PIK 0.50%) | | | |
| ted ^{(10), (12), (13)} | | Buildings and Real Estate | 11.08% | L+1,050 ⁽⁸⁾ | 24,386,987 | 38,764,474 |
| | 02/12/2020 | | | | | |
| ition, Inc. | | Healthcare, Education and Childcare | 10.00% | L+900 | 8,739,063 | 8,739,063 |
| | 08/13/2021 | | | | | |
| ces, LLC | 05/02/2019 | Oil and Gas | 12.00% | L+1,150 | 15,297,762 | 15,036,838 |
| | | | | | | |
| Unsecured Debt | | | | | | 284,877,715 |
| Secured Debt 83.7% | | | | | | |
| , Inc. | 10/31/2018 | | 8.50% | L+700 | 18,000,000 | 16,544,788 |

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

| | | | | | | |
|---|------------|---|-----------------------|----------------|------------|-------------|
| nite Company ⁽⁵⁾ | 09/01/2017 | Consumer Products | 11.50% | | 25,400,000 | 25,400,000 |
| | | Diversified Natural Resources, Precious Metals and Minerals | | | | |
| Corporation ⁽¹³⁾ | 12/02/2020 | Financial Services | 9.00% | L+800 | 15,500,000 | 15,322,421 |
| | | Financial Services | 13.00% | | 19,000,000 | 18,721,641 |
| as, LLC | 11/01/2018 | Oil and Gas | 12.25% | L+1,100 | 26,484,773 | 25,150,663 |
| (PIK 2.50%) | | | | | | |
| lding Materials, LLC | 04/30/2019 | Building Materials | 13.25% | P+1,000 | 45,000,000 | 44,625,152 |
| lding Materials, LLC | | Building Materials | 14.25% | P+1,100 | 33,109,864 | 32,588,028 |
| (PIK 1.00%) | | | | | | |
| Co. LLC | 09/30/2020 | Distribution | 11.00% | L+1,000 | 41,250,000 | 39,088,044 |
| ansportation 100, LLC ⁽⁵⁾ | 03/01/2017 | Cargo Transport | ⁽⁶⁾ | | 4,391,420 | 4,391,422 |
| Holdings, Inc. | 07/31/2019 | Consumer Products | 11.00% | L+1,000 | 34,000,000 | 33,476,169 |
| ment, Inc. | | Hotels, Motels, Inns and Gaming | 13.00% | L+1,175 | 48,765,129 | 48,307,757 |
| LLC | 07/07/2022 | Personal, Food and Miscellaneous Services | 10.75% | L+975 | 40,312,500 | 39,711,804 |
| nd Linc Energy Finance (USA), Inc. ⁽⁵⁾ | | Oil and Gas | 12.50% ⁽⁷⁾ | | 11,875,000 | 11,667,848 |
| urces, LLC ⁽⁵⁾ | 05/15/2019 | Oil and Gas | ⁽⁶⁾ | | 45,000,000 | 44,698,345 |
| ition, LLC | 07/07/2021 | Business Services | 11.75% | L+1,050 | 41,250,000 | 40,883,259 |
| Limited Partnership ^{(10), (13)} | | Hotels, Motels, Inns and Gaming | 13.00% | L+1,200 | 75,000,000 | 75,000,000 |
| nc. | 10/02/2020 | Media | 9.00% | L+775 | 19,698,091 | 19,478,649 |
| Services, Inc. | 07/01/2020 | Personal, Food and Miscellaneous Services | 10.25% | L+900 | 56,750,000 | 56,098,358 |
| Services Borrower, LLC | | Personal, Food and Miscellaneous Services | 9.75% | L+875 | 28,500,000 | 28,082,664 |
| | 07/01/2022 | | | | | |
| lien Secured Debt | | | | | | 619,237,012 |
| Debt/Corporate Notes 20.7% | | | | | | |
| Holdings, Inc. | 09/14/2018 | Consumer Products | ⁽⁶⁾ | | 41,389,881 | 37,715,391 |
| ments LLC | | 08/15/2018 | | ⁽⁶⁾ | | 21,625,412 |

| | | | | | |
|----------------------------------|------------|--|---------------------------|------------|-------------|
| | | Consumer Products | | | |
| ologies, LLC | 02/15/2019 | Financial Services | 12.00% | 8,930,000 | 8,819,557 |
| ldings, LLC | 08/20/2021 | Environmental Services | 12.00% | 27,475,553 | 26,893,410 |
| ldings, LLC ⁽⁹⁾ | 02/20/2017 | Environmental Services | | 11,124,447 | |
| nc. | 10/26/2018 | Personal, Food and Miscellaneous Services | 13.00% (PIK 1.75%) | 10,800,349 | 10,664,093 |
| | 06/15/2017 | Printing and Publishing | 14.50% ⁽⁷⁾ | 15,000,000 | 14,836,009 |
| urces, LLC ⁽⁵⁾ | 11/15/2019 | Oil and Gas | ⁽⁶⁾ | 15,204,289 | 14,829,719 |
| LLC | 04/15/2019 | Other Media | 12.50% ⁽⁷⁾ | 42,275,000 | 41,618,180 |
| Inc. | 05/13/2021 | Manufacturing / Basic Industries | 11.00% | 13,300,000 | 13,057,260 |
| ated Debt/Corporate Notes | | | | | 187,120,796 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2015**

| Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair Value |
|---|----------------------------------|---|---------------------------|---|-------------------------|-------------|-------------------|
| Preferred Equity/Partnership Interests 1.8% | | | | | | | |
| Holdings, Inc. | | Healthcare, Education and Childcare | 6.00% | | 211 | \$ 500,000 | \$ 35 |
| as Technologies Holdings Corp. | | Financial Services | | | 949 | 949,050 | 99 |
| rgint Technologies Holdings, LLC | | Electronics | 8.00% | | 2,375 | 2,088,121 | 2,22 |
| oldco, LLC | | Other Media | 8.00% | | 3,591 | | 2 |
| cosmetics US, Inc. | | Consumer Products | 8.00% | | 3,397 | 3,397,484 | 3,87 |
| Holdings, Inc. | | Manufacturing / Basic Industries | | | 1,197 | 1,197,000 | 1,29 |
| Holdings, Inc. (f/k/a Ride Holdings, Inc.) | | Personal Transportation | 8.00% | | 1,966,667 | 2,102,669 | 4,27 |
| Preferred Equity/Partnership Interests | | | | | | 10,234,324 | 13,03 |
| Common Equity/Partnership Interests/Warrants 7.7% | | | | | | | |
| Wireless Holdings, Inc. | | Retail | | | 1,736 | 445,500 | 2,52 |
| on Group Holdings, Inc., Series A (Warrants) | 12/12/2023 | Consumer Products | | | 4,798,624 | 10,265,972 | 2,51 |
| on Group Holdings, Inc., Series B (Warrants) | 12/12/2023 | Consumer Products | | | 9,822,196 | | 19 |
| oldings, Inc. (Warrants) | 03/23/2021 | Healthcare, Education and Childcare | | | 753 | | |
| as Technologies Holdings Corp. | | Financial Services | | | 1 | 950 | |
| CG Holdings, Inc. (Warrants) | 05/05/2026 | Education | | | 933 | 586,975 | 82 |
| n Games, LLC | | Broadcasting and Entertainment | | | 1,333,330 | 3,000,000 | |
| al Logistics Holdings LLC ⁽¹¹⁾ mediate Transportation 100, LLC) | | Cargo Transport | | | 137,923 | 2,111,588 | |

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

| | | | | | |
|--|------------|---|-----------|---------------|-----------|
| le LP Holdings, LLC ⁽¹¹⁾ | | Environmental Services | 23,600 | 2,360,000 | 3,473 |
| M) Holdings, LLC ⁽¹¹⁾ | | Building Materials | 207,242 | 2,250,000 | 8,223 |
| ation Building Materials, LLC) | | Building Materials | 103,621 | | |
| M) Holdings, LLC ⁽⁹⁾ , ⁽¹¹⁾ | | Building Materials | | | |
| ation Building Materials, LLC) | | Distribution | 1,745,639 | 1,745,639 | 2,043 |
| lls) Prime Investment Holdings, LLC ⁽¹¹⁾ | | Electronics | 2,375 | | 999 |
| rgint Technologies Holdings, LLC | | Building Materials | 3,520 | 171,601 | 190 |
| y Holdings, LLC | | Other Media | 388,378 | | 2,500 |
| or Specialists, Inc.) | | Consumer Products | 252 | 2,516 | 1,833 |
| oldco, LLC | | Healthcare, Education and Childcare | 1,079,920 | 1,236,832 | 6,703 |
| osmetics US, Inc. | | Healthcare, Education and Childcare | 1,079,920 | 1,028,807 | 1,023 |
| on Holdings, LLC, Class A | | Distribution | 16 | 383,447 | 383 |
| on Holdings, LLC, Class D | | Environmental Services | 1,000,000 | 1,000,000 | 763 |
| Acquisition, LLC ⁽¹¹⁾ | | Oil and Gas | 122,192 | 182,498 | |
| ecoserv Co-Invest Holdings, LLC ⁽¹¹⁾ | | Personal, Food and Miscellaneous Services | 3,000 | 3,000,000 | 4,813 |
| m Hunter Resources Corporation (Warrants) ⁽¹³⁾ | 04/16/2016 | Oil and Gas | 13,500 | 495,000 | |
| ean PPL Holdings, Corp. | | Insurance | 123,129 | 238,049 | 1,623 |
| aid Legal Services, Inc.) | | Electronics | 1,350,000 | 901,263 | 1,143 |
| ulf Resources, LLC (Warrants) ⁽¹¹⁾ | 05/09/2024 | Electronics | 150,000 | 142,300 | 1,353 |
| National, Inc. (Warrants) | 11/27/2023 | Personal Transportation | 1,870,331 | 148,998 | 148 |
| Products Holdings, LLC, Class A Units ⁽¹¹⁾ | | Manufacturing / Basic Industries | 1,330 | 133,000 | 613 |
| Products Holdings, LLC, Class B Units ⁽¹¹⁾ | | Personal Transportation | 9,882 | 11,314 | 213 |
| Group Parent, Inc. | | Printing and Publishing | 211,797 | 793,873 | 3,573 |
| Holdings, Inc. | | Business Services | 35,526 | 4,050,000 | 7,593 |
| Holdings, Inc. (f/k/a Ride Holdings, Inc.) | | | | | |
| m Parent Holdings, Inc. | | | | | |
| Holdings, Inc. | | | | | |
| Common Equity/Partnership Interests/Warrants | | | | 36,686,122 | 55,083 |
| Investments in Non-Controlled, Non-Affiliated Portfolio Companies | | | | 1,138,155,969 | 1,096,713 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2015**

| | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index ⁽⁴⁾ | Par / Shares | Cost |
|--|----------------------------------|--------------------------------------|---------------------------|--|-------------------------|-------------|
| Controlled, Affiliated Portfolio Companies 13.3%^{(1), (2)} | | | | | | |
| 3.2% | | | | | | |
| | 04/30/2018 | Business Services | 12.00% | L+1,050 | 23,514,911 | \$ 23,28 |
| bt 1.3% | | | | | | |
| Property Holdings, Inc. | 12/26/2017 | Environmental Services | 9.00% | L+800 | 9,409,740 | 9,23 |
| Property Holdings, Inc. ⁽⁹⁾ | 12/31/2015 | Environmental Services | | | 758,850 | |
| ed Debt | | | | | | 9,23 |
| Corporate Notes 4.8% | | | | | | |
| | 11/05/2019 | Consumer Products | ⁽⁶⁾ | | 13,092,070 | 13,09 |
| | 10/02/2017 | Auto Sector | 12.50% | | 28,000,000 | 27,70 |
| t/Corporate Notes | | | | | | 40,79 |
| g, Inc. | | | | | | |
| | | Aerospace and Defense | | | 53,071 | 20,05 |
| Partnership Interests/Warrants 3.3%⁽⁶⁾ | | | | | | |
| | | Consumer Products | | | 104,719 | 21,49 |
| (Warrants) | 11/05/2022 | Consumer Products | | | 15,486 | |
| , Inc. | | Environmental Services | | | 143,668 | 11,96 |
| | | Leisure, Amusement, | | | 375,000 | 3,75 |
| | | Motion Pictures and Entertainment | | | | |
| lings, Inc. | | Auto Sector | | | 16,800 | 2,72 |
| gs, Inc. | | Aerospace and Defense | | | 53,071 | 20 |
| | | Business Services | | | 491,755 | 18 |

| | |
|---------------------------------------|-------|
| Partnership Interests/Warrants | 40,31 |
|---------------------------------------|-------|

| | | | | | | | |
|--|------------|----------------------|--------|---------|------------|-------|-------------|
| Non-Controlled, Affiliated Portfolio Companies | | | | | | | 133,69 |
| Controlled, Affiliated Portfolio Companies 15.0%^{(1), (2)} | | | | | | | |
| 13.4% | | | | | | | |
| the A | 07/18/2019 | Energy and Utilities | 10.00% | L+800 | 76,425,000 | 75,17 | |
| (PIK 10.00%) | | | | | | | |
| LLC | 12/31/2018 | Media | 14.00% | L+1,300 | 23,055,423 | 20,95 | |
| (PIK 14.00%) | | | | | | | |
| Debt | | | | | | | 96,12 |
| Debt 0.5% | | | | | | | |
| LLC | 07/01/2019 | Media | 16.00% | L+1,500 | 3,462,417 | 3,46 | |
| (PIK 16.00%) | | | | | | | |
| LLC ⁽⁹⁾ | 07/01/2019 | Media | | | 2,575,000 | | |
| Unsecured Debt | | | | | | | 3,46 |
| () | | | | | | | |
| Holdings, Inc. | | Media | 15.00% | | 37,046 | 5,00 | |
| | | | | | | | |
| Corp. | | Distribution | | | 65,933 | 24,76 | |
| LLC (f/k/a RAM Energy, LLC) | | Energy and Utilities | | | 23,141 | 20,82 | |
| Holdings, Inc. | | Media | | | 11,100 | 2,21 | |
| | | | | | | | 47,79 |
| Controlled, Affiliated Portfolio Companies | | | | | | | 152,38 |
| 0% | | | | | | | 1,424,23 |
| Investments 6.9% | | | | | | | |
| ds, Temp Cash, Institutional Shares | | | | | | 4,56 | |
| re and Cash | | | | | | 45,07 | |
| Equivalents | | | | | | | 49,63 |
| Cash Equivalents 188.2% | | | | | | | \$ 1,473,87 |
| Other Assets (88.2%) | | | | | | | |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2015

- (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 generally presumed to be non-controlled when we own 25% or less of the portfolio company's voting securities and controlled when we own more than 25% of the 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 generally 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 rate, or P. 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.
- (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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Unaudited)

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. 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 debt, 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 under a separate administration agreement. 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 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.

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. The 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, or 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 Financial Accounting Standards Board's Accounting

Standards Codification, as amended, 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, Financial Services Investment Companies, 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 and a consistently applied valuation process, as described in this Report. 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.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2016

(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.

(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 and 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, in the case of deferred financing costs, as interest expense. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

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

(c) Income Taxes

We have complied with the requirements of Subchapter M of the Code and have qualified to be subject to tax as a RIC. As a result, we account for income taxes using the asset and 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 our qualification and election to be subject to taxation as a RIC, we typically do not incur any material level of federal income taxes. Although we are not subject to federal income taxes as a RIC, we may elect to retain a portion of our calendar year income, which may result in an excise tax, or we may incur taxes through our Taxable Subsidiaries. For the three and nine months ended June 30, 2016, we accrued taxes of \$0.4 million and \$2.0 million, respectively. We accrued no taxes for either the three or nine month periods ended June 30, 2015.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. We did not have any uncertain tax positions or any unrecognized tax benefits that met the recognition or measurement criteria of ASC 740-10-25 as of the periods presented herein.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gains recognized for financial reporting purposes. Differences between tax regulations and GAAP 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, other assets 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.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2016

(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 2016. 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 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. For providing these services, the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee, or collectively referred to as Management 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 commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the three and nine months ended June 30, 2016 and through December 31, 2016, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to waive 16% of base management fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three and nine months ended June 30, 2016, the Investment Adviser earned base management fees of \$5.2 million (after a waiver of \$1.0 million) and \$15.8 million (after a waiver of \$3.0 million), respectively, from us. For the three and nine months ended June 30, 2015, the Investment Adviser earned base management fees of \$6.5 million and \$20.1 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, fee waivers, if any, any expenses payable under the Administration Agreement and any interest expense or amendment fees under any credit facility 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 and nine months ended June 30, 2016 and through December 31, 2016, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to waive 16% of incentive fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three and nine months ended June 30, 2016, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$3.4 million (after a waiver of \$0.6 million) and \$10.6 million (after a waiver of \$2.0 million), respectively, from us. For the three and nine months ended June 30, 2015, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$5.2 million and \$15.6 million, respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% 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 and nine months ended June 30, 2016 and 2015, 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 and nine months ended June 30, 2016 and 2015, 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 2016. 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 Statements of Operations. For the three and nine months ended June 30, 2016, the Investment Adviser was reimbursed \$0.4 million and \$2.9 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for the services described above. For the three and nine months ended June 30, 2015, the Investment Adviser was reimbursed \$0.7 million and \$3.1 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for the services described above.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)****4. INVESTMENTS**

Purchases of investments, including PIK interest, for the three and nine months ended June 30, 2016 totaled \$94.7 million and \$317.7 million, respectively. For the same periods in the prior year, purchases of investments, including PIK interest, totaled \$115.7 million and \$352.5 million, respectively. Sales and repayments of investments for the three and nine months ended June 30, 2016 totaled \$103.1 million and \$304.1 million, respectively. For the same periods in the prior year, sales and repayments of investments totaled \$107.0 million and \$289.5 million, respectively.

Investments and cash and cash equivalents consisted of the following:

| Investment Classification | June 30, 2016 | | September 30, 2015 | |
|---|-------------------------|-------------------------|---------------------------|-------------------------|
| | Cost | Fair Value | Cost | Fair Value |
| First lien | \$ 444,934,975 | \$ 421,969,400 | \$ 404,291,400 | \$ 399,237,158 |
| Second lien | 533,717,171 | 508,613,747 | 631,936,443 | 612,552,913 |
| Subordinated debt / corporate notes | 188,834,118 | 175,408,900 | 227,915,734 | 182,467,798 |
| Equity and partnership interests | 191,976,438 | 130,589,044 | 160,093,585 | 104,789,964 |
| Total investments | 1,359,462,702 | 1,236,581,091 | 1,424,237,162 | 1,299,047,833 |
| Cash and cash equivalents | 38,106,415 | 37,872,854 | 49,637,415 | 49,619,256 |
| Total investments, cash and cash equivalents | \$ 1,397,569,117 | \$ 1,274,453,945 | \$ 1,473,874,577 | \$ 1,348,667,089 |

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:

| Industry Classification | June 30, 2016 | September 30, 2015 |
|---------------------------------|----------------------|---------------------------|
| Hotels, Motels, Inns and Gaming | 14% | 14% |
| | 11 | 11 |

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

| | | |
|--|------|------|
| Personal, Food and Miscellaneous Services | | |
| Consumer Products | 10 | 8 |
| Business Services | 7 | 6 |
| Energy and Utilities | 6 | 6 |
| Distribution | 5 | 4 |
| Environmental Services | 5 | 4 |
| Oil and Gas | 5 | 6 |
| Aerospace and Defense | 4 | 2 |
| Manufacturing / Basic Industries | 4 | 1 |
| Media | 4 | 4 |
| Auto Sector | 3 | 2 |
| Printing and Publishing | 3 | 1 |
| Retail | 3 | 4 |
| Building Materials | 2 | 9 |
| Buildings and Real Estate | 2 | 3 |
| Electronics | 2 | 1 |
| Financial Services | 2 | 3 |
| Healthcare, Education and Childcare | 2 | 1 |
| Other Media | 2 | 3 |
| Chemicals, Plastics and Rubber | 1 | 2 |
| Other | 3 | 5 |
| Total | 100% | 100% |

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2016

(Unaudited)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value, as defined under ASC 820, Fair Value Measurement, or 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 date.

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

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

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

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, disorderly transactions 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 orderly 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 debt, 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. These non-public investments valued using unobservable inputs are included in Level 3 of the fair value hierarchy.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the nine months ended June 30, 2016, our ability to observe valuation inputs resulted in one reclassification of an asset from Level 2 to 1. During the nine months ended June 30, 2015, there was one reclassification from Level 2 to 3 and one reclassification from Level 3 to 2.

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 typically include a disclaimer, have no corroborating evidence, may be the result of a disorderly transaction 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 and our long-term Credit Facility are 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.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

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

| Asset Category | Fair Value at June 30, 2016 | Valuation Technique | Unobservable Input | Range of Input (Weighted Average) | |
|---------------------------|--|----------------------------|------------------------------|--|---------------|
| Debt investments | \$ 212,767,114 | Market Comparable | Broker/Dealer bids or quotes | N/A | |
| Debt investments | 893,224,933 | Market Comparable | Market Yield | 9.3% | 19.8% (13.0%) |
| Equity investments | 129,763,805 | Enterprise Market Value | EBITDA multiple | 4.4x | 21.3x (8.1x) |
| Total Level 3 investments | \$ 1,235,755,852 | | | | |
| Long-Term Credit Facility | \$ 101,067,312 | Market Comparable | Market Yield | 3.8% | |

| Asset Category | Fair Value at September 30, 2015 | Valuation Technique | Unobservable Input | Range of Input (Weighted Average) | |
|---------------------------|---|----------------------------|------------------------------|--|---------------|
| Debt investments | \$ 281,455,418 | Market Comparable | Broker/Dealer bids or quotes | N/A | |
| Debt investments | 912,802,451 | Market Comparable | Market Yield | 9.6% | 34.7% (14.1%) |
| Equity investments | 2,715,722 | Market Comparable | Broker/Dealer bids or quotes | N/A | |
| Equity investments | 100,453,864 | Enterprise Market Value | EBITDA multiple | 3.4x | 22.5x (9.2x) |
| Total Level 3 investments | \$ 1,297,427,455 | | | | |
| Long-Term Credit Facility | \$ 132,356,860 | Market Comparable | Market Yield | 3.4% | |

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

| Description | Fair Value | Fair Value at June 30, 2016 | | |
|---|------------------|-----------------------------|----------------|------------------|
| | | Level 1 | Level 2 | Level 3 |
| Debt investments | \$ 1,105,992,047 | \$ | \$ | \$ 1,105,992,047 |
| Equity investments | 130,589,044 | 825,239 | | 129,763,805 |
| Total investments | 1,236,581,091 | 825,239 | | 1,235,755,852 |
| Cash and cash equivalents | 37,872,854 | 37,872,854 | | |
| Total investments and cash and cash equivalents | \$ 1,274,453,945 | \$ 38,698,093 | \$ | \$ 1,235,755,852 |
| Long-Term Credit Facility | \$ 101,067,312 | \$ | \$ | \$ 101,067,312 |
| 2019 Notes | 249,675,000 | | 249,675,000 | |
| 2025 Notes | 70,566,000 | 70,566,000 | | |
| Total debt | \$ 421,308,312 | \$ 70,566,000 | \$ 249,675,000 | \$ 101,067,312 |

| Description | Fair Value | Fair Value at September 30, 2015 | | |
|---|------------------|----------------------------------|----------------|------------------|
| | | Level 1 | Level 2 | Level 3 |
| Debt investments | \$ 1,194,257,869 | \$ | \$ | \$ 1,194,257,869 |
| Equity investments | 104,789,964 | | 1,620,378 | 103,169,586 |
| Total investments | 1,299,047,833 | | 1,620,378 | 1,297,427,455 |
| Cash and cash equivalents | 49,619,256 | 49,619,256 | | |
| Total investments and cash and cash equivalents | \$ 1,348,667,089 | \$ 49,619,256 | \$ 1,620,378 | \$ 1,297,427,455 |
| Long-Term Credit Facility | \$ 132,356,860 | \$ | \$ | \$ 132,356,860 |
| 2019 Notes | 253,102,500 | | 253,102,500 | |
| 2025 Notes | 71,136,000 | 71,136,000 | | |
| Total debt | \$ 456,595,360 | \$ 71,136,000 | \$ 253,102,500 | \$ 132,356,860 |

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

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

| Description | Nine Months Ended June 30, 2016 | | |
|--|--|-------------------------------|------------------|
| | Debt investments | Equity investments | Totals |
| Beginning Balance | \$ 1,194,257,869 | \$ 103,169,586 | \$ 1,297,427,455 |
| Net realized (losses) gains | (88,191,975) | 6,055,002 | (82,136,973) |
| Net unrealized appreciation (depreciation) | 8,391,489 | (5,471,142) | 2,920,347 |
| Purchases, PIK interest, net discount accretion and non-cash exchanges | 275,592,605 | 46,056,651 | 321,649,256 |
| Sales, repayments and non-cash exchanges | (284,057,941) | (20,046,292) | (304,104,233) |
| Transfers in/out of Level 3 | | | |
| Ending Balance | \$ 1,105,992,047 | \$ 129,763,805 | \$ 1,235,755,852 |

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

\$ (41,585,936) \$ (3,480,364) \$ (45,066,300)

| Description | Nine Months Ended June 30, 2015 | | |
|--|--|-------------------------------|------------------|
| | Debt investments | Equity investments | Totals |
| Beginning Balance | \$ 1,161,475,899 | \$ 111,862,237 | \$ 1,273,338,136 |
| Net realized gains | 2,962,343 | 28,883,600 | 31,845,943 |
| Net unrealized depreciation | (69,360,865) | (30,048,498) | (99,409,363) |
| Purchases, PIK interest, net discount accretion and non-cash exchanges | 302,313,341 | 39,307,424 | 341,620,765 |
| Sales, repayments and non-cash exchanges | (248,604,839) | (40,940,666) | (289,545,505) |
| Transfers in/out of Level 3 | 29,146,379 | (1,234,984) | 27,911,395 |
| Ending Balance | \$ 1,177,932,258 | \$ 107,829,113 | \$ 1,285,761,371 |

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

\$ (66,210,579) \$ (16,287,835) \$ (82,498,414)

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

| Long-Term Credit Facility | Nine Months Ended June 30, | |
|--|-----------------------------------|----------------|
| | 2016 | 2015 |
| Beginning Balance (cost \$106,864,300 and \$305,226,300, respectively) | \$ 102,356,860 | \$ 304,847,870 |
| Net change in unrealized depreciation included in earnings | (11,569,171) | (2,432,310) |
| Borrowings ⁽¹⁾ | 242,664,923 | 249,000,000 |
| Repayments ⁽¹⁾ | (232,385,300) | (228,689,600) |
| Transfers in and/or out of Level 3 | | |
| Ending Balance (cost \$117,143,923 and \$325,536,700, respectively) | \$ 101,067,312 | \$ 322,725,960 |
| Temporary draws outstanding, at cost | | 26,000,000 |
| Ending Balance (cost \$117,143,923 and \$351,536,700, respectively) | \$ 101,067,312 | \$ 348,725,960 |

⁽¹⁾ Excludes temporary draws.

As of June 30, 2016, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translating on outstanding borrowings is listed below:

| Foreign Currency | Original | | | Reset Date | Change in Fair Value |
|-------------------------|-----------------------|-----------------------|----------------------|-------------------|-----------------------------|
| | Local Currency | Borrowing Cost | Current Value | | |
| British Pound | £ 53,000,000 | \$ 84,143,923 | \$ 70,556,621 | July 1, 2016 | \$ (13,587,302) |

As of September 30, 2015, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translating on outstanding borrowings is listed below:

| Foreign Currency | Original | | | Reset Date | Change in Fair Value |
|-------------------------|-----------------------|-----------------------|----------------------|-------------------|-----------------------------|
| | Local Currency | Borrowing Cost | Current Value | | |
| British Pound | £ 28,000,000 | \$ 46,864,300 | \$ 42,356,860 | October 1, 2015 | \$ (4,507,440) |

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

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 Statements of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three and nine months ended June 30, 2016, our Credit Facility and our Notes had a net change in unrealized (appreciation) depreciation of \$(2.4) million and \$15.6 million, respectively. For the three and nine months ended June 30, 2015, our Credit Facility and our Notes had a net change in unrealized depreciation of \$0.6 million and \$2.3 million, respectively. As of June 30, 2016 and September 30, 2015, net unrealized depreciation on our Credit Facility and our Notes totaled \$17.1 million and \$1.5 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility and our 2019 Notes 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 portfolio company is generally presumed to be a non-controlled affiliate when we own at least 5% but 25% or less of its voting securities and a controlled affiliate when we own more than 25% of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the nine months ended June 30, 2016 were as follows:

| Name of Investment | Fair Value at September 30, 2015 ⁽¹⁾ | Purchases of / Advances to | | Income Accrued | Fair Value at June 30, 2016 ⁽¹⁾ | Net Realized G (Losses) |
|----------------------------|--|--------------------------------|---|-------------------|---|----------------------------|
| | | Affiliates ^{(1), (2)} | Sale of / Distributions from Affiliates ⁽¹⁾ | | | |
| Controlled Affiliates | | | | | | |
| MidOcean JF Holdings Corp. | | | | | | |
| F Acquisition, LLC) | \$ 6,900,207 | \$ 14,318,325 | \$ | \$ | \$ 20,911,624 | \$ |
| AM Energy LLC | 72,759,582 | 6,072,790 | | 6,237,571 | 68,060,677 | |

| | | | | | | |
|---|----------------|---------------|-----------------|---------------|----------------|----------------|
| Superior Digital Displays Holdings, Inc. | 27,165,861 | 7,417,561 | | 3,653,132 | 34,033,916 | |
| Non-Controlled Affiliates | | | | | | |
| Union Group Holdings, Inc. ⁽³⁾ | | 341,025 | | 1,568,698 | 51,554,522 | |
| Corfin Industries LLC ⁽³⁾ | | 24,351,000 | (118,500) | 1,650,034 | 25,492,101 | |
| DirectBuy Holdings, Inc. | 6,284,194 | (751,537) | | | 3,004,272 | |
| AviroSolutions Holdings, Inc. | 20,464,829 | | | 693,291 | 21,274,488 | |
| CP-Performance, L.P. | | | | | | (3,750,000) |
| New Gulf Resources, LLC ⁽⁴⁾ | | | | | 35,079,427 | |
| AS International Holdings, Inc. | 11,432,674 | 2,800,650 | (11,132) | 148,801 | 10,014,228 | |
| Service Champ, Inc. | 32,388,562 | | | 2,762,433 | 33,459,358 | |
| RAK Acquisition Corp. | 24,932,845 | 15,000,000 | (12,500,000) | 2,218,391 | 29,081,376 | |
| Total Controlled and Non-Controlled Affiliates | | | | | | |
| | \$ 202,328,754 | \$ 69,549,814 | \$ (12,629,632) | \$ 18,932,351 | \$ 331,965,989 | \$ (3,750,000) |

(1) Excluding delayed draw investments.

(2) Includes PIK and PIK adjustments.

(3) Became a non-controlled affiliate during the three months ended December 31, 2015.

(4) Became a non-controlled affiliate during the three months ended June 30, 2016.

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

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------|--------------|----------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator for net increase (decrease) in net assets resulting from operations | \$ 27,832,874 | \$ 4,935,950 | \$ (8,972,672) | \$ (11,631,043) |
| Denominator for basic and diluted weighted average shares | 71,060,836 | 74,779,503 | 71,809,792 | 74,988,442 |
| Basic and diluted net increase (decrease) in net assets resulting from operations | \$ 0.39 | \$ 0.07 | \$ (0.12) | \$ (0.16) |

8. CASH AND 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 June 30, 2016 and September 30, 2015, cash and cash equivalents consisted of \$37.9 million and \$49.6 million at fair value, respectively.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)****9. FINANCIAL HIGHLIGHTS**

Below are the financial highlights:

| | Nine Months Ended June 30, | |
|--|-----------------------------------|----------------|
| | 2016 | 2015 |
| Per Share Data: | | |
| Net asset value, beginning of period | \$ 9.82 | \$ 11.03 |
| Net investment income ⁽¹⁾ | 0.77 | 0.83 |
| Net realized and unrealized loss ⁽¹⁾ | (0.89) | (0.99) |
| Net decrease in net assets resulting from operations ⁽¹⁾ | (0.12) | (0.16) |
| Distributions to stockholders ^{(1), (2)} | (0.84) | (0.84) |
| Repurchase of common stock ⁽¹⁾ | 0.08 | 0.01 |
| Net asset value, end of period | \$ 8.94 | \$ 10.04 |
| Per share market value, end of period | \$ 6.83 | \$ 8.78 |
| Total return* ⁽³⁾ | 19.77% | (17.07)% |
| Shares outstanding at end of period | 71,060,836 | 74,259,698 |
| Ratios**/ Supplemental Data: | | |
| Ratio of operating expenses to average net assets ^{(4), (5), (6)} | 6.71% | 6.83% |
| Ratio of interest and expenses on debt to average net assets | 4.15% | 3.32% |
| Ratio of total expenses to average net assets ^{(5), (6)} | 10.86% | 10.15% |
| Ratio of net investment income to average net assets ⁽⁶⁾ | 11.20% | 10.47% |
| Net assets at end of period | \$ 635,554,512 | \$ 745,543,177 |
| Weighted average debt outstanding ⁽⁷⁾ | \$ 631,748,088 | \$ 577,509,319 |

