

PENNANTPARK INVESTMENT CORP

Form 10-Q

August 04, 2010

[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 QUARTER ENDED JUNE 30, 2010**

**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**

# Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of August 4, 2010 was 31,558,772.

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2010**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

<b><u>Item 1. Financial Statements</u></b>	2
<u>Consolidated Statements of Assets and Liabilities as of June 30, 2010 (unaudited) and September 30, 2009</u>	2
<u>Consolidated Statements of Operations for the three and nine months ended June 30, 2010 and 2009 (unaudited)</u>	3
<u>Consolidated Statements of Changes in Net Assets for the nine months ended June 30, 2010 and 2009 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended June 30, 2010 and 2009 (unaudited)</u>	5
<u>Consolidated Schedules of Investments as of June 30, 2010 (unaudited) and September 30, 2009</u>	6
<u>Notes to Consolidated Financial Statements</u>	12
<u>Report of Independent Registered Public Accounting Firm</u>	22
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	23
<b><u>Item 3. Quantitative And Qualitative Disclosures About Market Risk</u></b>	30
<b><u>Item 4. Controls and Procedures</u></b>	30

**PART II. OTHER INFORMATION**

<b><u>Item 1. Legal Proceedings</u></b>	31
<b><u>Item 1A. Risk Factors</u></b>	31
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	31
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	31
<b><u>Item 4. Reserved</u></b>	31
<b><u>Item 5. Other Information</u></b>	31
<b><u>Item 6. Exhibits</u></b>	32
<b><u>SIGNATURES</u></b>	33

**Table of Contents**

**PART I FINANCIAL INFORMATION**

We are filing this Report in compliance with Rule 13a-13 promulgated by the SEC. In this Report, PennantPark Investment , we , our or us ref to PennantPark Investment Corporation and its Subsidiaries unless the context otherwise requires.

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

	<b>June 30, 2010 (unaudited)</b>	<b>September 30, 2009</b>
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$600,409,815 and \$479,909,805, respectively)	\$ 606,401,552	\$ 453,644,335
Non-controlled, affiliated investments, at fair value (cost \$17,963,471 and \$17,378,081, respectively)	16,776,046	16,115,738
<b>Total of Investments, at fair value (cost \$618,373,286 and \$497,287,886, respectively)</b>	<b>623,177,598</b>	<b>469,760,073</b>
Cash and Cash equivalents	1,303,502	33,247,666
Interest receivable	7,633,183	5,539,056
Receivables for investments sold	3,272,912	2,726,007
Prepaid expenses and other assets	1,651,324	1,108,567
<b>Total assets</b>	<b>637,038,519</b>	<b>512,381,369</b>
<b>Liabilities</b>		
Distributions payable	8,205,281	5,056,505
Payable for investments purchased	18,675,000	19,489,525
Unfunded investments	22,320,388	6,331,385
Credit facility payable, at fair value (cost \$256,800,000 and \$225,100,000, respectively) (See Notes 5 and 10)	236,076,000	175,475,380
Interest payable on credit facility	149,427	72,788
Management fee payable (See Note 3)	3,035,172	2,220,110
Performance-based incentive fee payable (See Note 3)	2,205,311	1,508,164
Accrued other expenses	1,105,890	1,647,244
<b>Total liabilities</b>	<b>291,772,469</b>	<b>211,801,101</b>
<b>Net Assets</b>		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 31,558,772 and 25,368,772 shares issued and outstanding, respectively	31,559	25,369
Paid-in capital in excess of par	384,602,224	327,062,304
Undistributed net investment income	2,242,960	1,890,235
Accumulated net realized loss on investments and cash equivalents	(67,139,005)	(50,494,447)
Net unrealized appreciation (depreciation) on investments	4,804,312	(27,527,813)
Net unrealized depreciation on credit facility (See Note 5)	20,724,000	49,624,620
<b>Total net assets</b>	<b>\$ 345,266,050</b>	<b>\$ 300,580,268</b>
<b>Total liabilities and net assets</b>	<b>\$ 637,038,519</b>	<b>\$ 512,381,369</b>
<b>Net asset value per share</b>	<b>\$ 10.94</b>	<b>\$ 11.85</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

	Three months ended June 30, 2010	2009	Nine months ended June 30, 2010	2009
<b>Investment income:</b>				
From non-controlled, non-affiliated investments:				
Interest	\$ 15,404,934	\$ 10,333,025	\$ 41,140,098	\$ 32,129,612
Other	594,978	138,335	1,327,063	152,652
From non-controlled, affiliated investments:				
Interest	335,159	298,349	991,388	988,668
<b>Total investment income</b>	<b>16,335,071</b>	<b>10,769,709</b>	<b>43,458,549</b>	<b>33,270,932</b>
<b>Expenses:</b>				
Base management fee (See Note 3)	3,035,172	1,928,082	8,331,957	5,495,505
Performance-based incentive fee (See Note 3)	2,205,310	1,412,925	5,779,297	4,175,224
Interest and other credit facility expenses	962,597	791,587	2,619,555	3,817,133
Administrative services expenses (See Note 3)	709,737	582,177	1,806,860	1,558,672
Other general and administrative expenses	601,011	388,507	1,705,400	1,523,505
<b>Expenses before taxes</b>	<b>7,513,827</b>	<b>5,103,278</b>	<b>20,243,069</b>	<b>16,570,039</b>
Excise tax (See Note 2)			97,890	
<b>Total expenses</b>	<b>7,513,827</b>	<b>5,103,278</b>	<b>20,340,959</b>	<b>16,570,039</b>
<b>Net investment income</b>	<b>8,821,244</b>	<b>5,666,431</b>	<b>23,117,590</b>	<b>16,700,893</b>
<b>Realized and unrealized gain (loss) on investments and credit facility:</b>				
Net realized gain (loss) on non-controlled, non-affiliated investments	100,295	(24,701,776)	(16,644,556)	(30,847,040)
Net change in unrealized (depreciation) appreciation on:				
Non-controlled, non-affiliated investments	(1,732,131)	27,736,328	32,257,205	14,960,676
Non-controlled, affiliated investments	279,017	(318,107)	74,918	(2,638,476)
Credit facility unrealized (appreciation) depreciation (See Note 5)	(3,208,992)	(9,202,647)	(28,900,620)	11,446,442
Net change in unrealized (depreciation) appreciation	(4,662,106)	18,215,574	3,431,503	23,768,642
<b>Net realized and unrealized loss from investments and credit facility</b>	<b>(4,561,811)</b>	<b>(6,486,202)</b>	<b>(13,213,053)</b>	<b>(7,078,398)</b>
Net increase (decrease) in net assets resulting from operations	\$ 4,259,433	\$ (819,771)	\$ 9,904,537	\$ 9,622,495
Net increase (decrease) in net assets resulting from operations per common share (See Note 8)	\$ 0.13	\$ (0.04)	\$ 0.35	\$ 0.45
Net investment income per common share	0.28	0.27	0.82	0.79

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS





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

	<b>Nine months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Increase in net assets from operations:</b>		
Net investment income	\$ 23,117,590	\$ 16,700,893
Net realized loss on investments	(16,644,556)	(30,847,040)
Net change in unrealized appreciation on investments	32,332,123	12,322,200
Net change in unrealized (appreciation) depreciation on credit facility	(28,900,620)	11,446,442
<b>Net increase in net assets resulting from operations</b>	<b>9,904,537</b>	<b>9,622,495</b>
<b>Distributions to Stockholders:</b>		
Distributions from net investment income	(22,862,755)	(15,169,515)
<b>Capital Share Transactions:</b>		
Issuance of shares of common stock, net of offering costs	57,644,000	
<b>Total increase (decrease) in net assets</b>	<b>44,685,782</b>	<b>(5,547,020)</b>
<b>Net Assets:</b>		
Beginning of period	300,580,268	210,728,260
Cumulative effect of adoption of fair value option (See Note 5)		41,796,000
Adjusted beginning of period balance	300,580,268	252,524,260
End of period	\$ 345,266,050	\$ 246,977,240
Undistributed net investment income, at period end	2,242,960	928,718
<b>Capital Share Activity:</b>		
Shares issued in connection with public offerings	6,190,000	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Nine Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 9,904,537	\$ 9,622,495
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used for) operating activities:		
Net change in unrealized appreciation on investments	(32,332,123)	(12,322,200)
Net change in unrealized appreciation (depreciation) on credit facility	28,900,620	(11,446,442)
Net realized loss on investments	16,644,556	30,847,040
Net accretion of discount and amortization of premium	(3,155,823)	(1,903,798)
Purchase of investments	(212,794,556)	(47,957,218)
Payments-in-kind	(4,495,644)	(2,528,233)
Proceeds from dispositions of investments	82,716,065	12,873,998
(Increase) Decrease in interest receivable	(2,094,127)	1,275,507
(Increase) in receivables for investments sold	(546,905)	(1,381,011)
(Increase) Decrease in prepaid expenses and other assets	(542,757)	95,536
(Decrease) Increase in payables for investments purchased	(814,525)	4,183,666
Increase in unfunded investments	15,989,003	6,331,385
Increase (Decrease) in interest payable on credit facility	76,639	(653,009)
Increase in management fee payable	815,062	1,842,186
Increase in performance-based incentive fee payable	697,147	1,292,839
(Decrease) in accrued expenses	(541,354)	(11,291)
Net cash (used for) operating activities	(101,574,185)	(9,838,550)
<b>Cash flows from financing activities:</b>		
Issuance of shares of common stock, net of offering costs	57,644,000	
Distributions paid to stockholders	(19,713,979)	(15,169,515)
Borrowings under credit facility (See Note 10)	189,300,000	85,300,000
Repayments under credit facility (See Note 10)	(157,600,000)	(100,000,000)
Net cash provided by (used for) financing activities	69,630,021	(29,869,515)
<b>Net decrease in cash and cash equivalents</b>	<b>(31,944,164)</b>	<b>(39,708,065)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>33,247,666</b>	<b>40,249,201</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,303,502</b>	<b>\$ 541,136</b>
Supplemental disclosure of cash flow information and non-cash financing activity (See Note 5):		
Interest paid	\$ 2,304,517	\$ 4,270,412
Income taxes paid	\$ 97,890	\$
Cumulative effect of adoption of fair value option on credit facility	\$	\$ 41,796,000

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 175.6%</b> <sup>(1),(2)</sup>							
<b>Subordinated Debt/Corporate Notes 60.2%</b>							
Affinion Group Holdings, Inc.	03/01/2012	Consumer Products	8.39% <sup>(6)</sup>	L+750	\$ 24,541,792	\$ 24,077,712	\$ 22,823,867
Aquilex Holdings, LLC <sup>(5)</sup>	12/15/2016	Diversified / Conglomerate Services	11.13%		15,885,000	15,476,595	15,885,000
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% <sup>(6)</sup>		8,109,468	7,968,680	8,190,563
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% <sup>(6)</sup>		20,617,803	20,237,130	21,236,337
Da-Lite Screen Company, Inc. <sup>(5)</sup>	04/01/2015	Home and Office Furnishings, Housewares and Durable Consumer Products	12.50%		25,000,000	24,354,029	24,968,752
i2 Holdings Ltd. <sup>(10)</sup>	06/06/2014	Aerospace and Defense	14.75% <sup>(6)</sup>		23,124,745	22,801,947	23,166,369
Learning Care Group (US) Inc.	06/30/2013	Education	15.00% <sup>(6)</sup>		3,947,368	3,176,775	3,582,236
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		10,000,000	9,020,894	7,550,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% <sup>(6)</sup>		11,646,610	11,282,917	11,646,610
Trizetto Group, Inc.	10/01/2016	Insurance	13.50% <sup>(6)</sup>		20,501,960	20,327,187	21,117,019
UP Acquisitions Sub Inc.	02/08/2015	Oil and Gas	15.50% <sup>(6)</sup>		21,098,000	20,623,633	21,098,000
Veritext Corp.	12/31/2015	Business Services	14.00% <sup>(6)</sup>		15,000,000	14,625,000	15,000,000
Veritext Corp. <sup>(9)</sup>	12/31/2012	Business Services			12,000,000	11,700,000	11,700,000
<b>Total Subordinated Debt/Corporate Notes</b>						205,672,499	207,964,753
<b>Second Lien Secured Debt 41.2%</b>							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.45%	L+600	13,600,000	13,197,356	12,002,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.49%	L+700	12,000,000	11,766,298	10,770,000
Generics International (U.S.), Inc.	04/30/2015	Healthcare, Education and Childcare	8.03%	L+750	12,000,000	11,956,973	11,388,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% <sup>(6)</sup>	L+700 <sup>(8)</sup>	2,436,357	2,436,357	2,444,884
Mohegan Tribal Gaming Authority <sup>(5)</sup>	11/01/2017	Hotels, Motels, Inns and Gaming	11.50%		5,000,000	4,821,918	4,950,000
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 <sup>(8)</sup>	3,227,428	3,227,428	3,227,428
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% <sup>(6)</sup>	L+850 <sup>(8)</sup>	1,723,738	1,723,738	1,723,738
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,433,330
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2015	Transportation	8.19%	L+775	10,000,000	9,949,586	9,050,000
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2017	Transportation	12.50%		19,000,000	17,001,649	17,955,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and	6.10% <sup>(6)</sup>	L+575	21,500,000	19,113,540	19,618,750

# Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Specialized Technology Resources, Inc.	12/15/2014	Childcare Chemical, Plastics and Rubber	7.35% <sup>(6)</sup>	L+700	22,500,000	22,489,618	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	7.10% <sup>(6)</sup>	L+675	17,706,723	17,215,645	16,095,412

<b>Total Second Lien Secured Debt</b>						144,900,106	142,158,542
---------------------------------------	--	--	--	--	--	-------------	-------------

## Preferred Equity/Partnership Interests <sup>(7)</sup>

<b>2.6%</b>							
AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			319	318,896	
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		797	797,288	1,038,808
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services	9.00%		144,375	144,375	147,263
i2 Holdings Ltd. <sup>(10)</sup>		Aerospace and Defense	12.00%		4,137,240	4,137,240	4,363,693
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,453,128
UP Holdings Inc., Class A-1 (UP Acquisitions Sub Inc.)		Oil and Gas	8.00%		91,608	2,499,066	1,359,390

<b>Total Preferred Equity/Partnership Interests</b>						9,894,691	9,048,102
---	--	--	--	--	--	-----------	-----------

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par /Shares</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
<b>Common Equity/Warrants/Partnership Interests <sup>(7)</sup> 8.1%</b>							
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			\$ 1,333	\$ 3,000,000	\$ 3,000,000
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,627	16,271	376,787
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,557	3,200,000	7,285,925
i2 Holdings Ltd. <sup>(10)</sup>		Aerospace and Defense			457,322	454,030	
Learning Care Group (US) Inc. (warrants)	04/27/2020	Education			1,267	779,920	720,582
Magnum Hunter Resources Corporation		Oil and Gas			1,055,932	2,464,999	4,582,745
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,167	1,255,907
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		154,193
TRAK Acquisition Corp. (warrants)	12/29/2019	Business Services			3,500	29,400	670,917
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,433,112	4,369,483
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	6,467	1,396,056
UP Holdings Inc. (UP Acquisitions Sub Inc.)		Oil and Gas			91,608	916	
VText Holdings, Inc.		Business Services			35,526	4,050,000	4,050,000
<b>Total Common Equity/Warrants/Partnership Interests</b>						<b>17,741,282</b>	<b>27,862,595</b>
<b>First Lien Secured Debt 63.5%</b>							
1-800 Contacts, Inc.	03/04/2015	Distribution	7.70%	P+295 <sup>(8)</sup>	11,829,625	10,259,614	11,711,327
Birch Communications, Inc.	06/21/2015	Telecommunications	15.00%	L+1,300 <sup>(8)</sup>	16,363,636	15,765,861	16,363,636
Birch Communications, Inc. <sup>(9)</sup>	09/30/2010	Telecommunications			3,636,364	3,636,364	3,636,364
CEVA Group PLC <sup>(5), (10)</sup>	10/01/2016	Logistics	11.63%		7,500,000	7,300,183	7,743,750
CEVA Group PLC <sup>(5), (10)</sup>	04/01/2018	Logistics	11.50%		1,000,000	987,488	1,015,000
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 <sup>(8)</sup>	9,437,500	8,934,730	9,366,719
Columbus International, Inc. <sup>(5), (10)</sup>	11/20/2014	Communication	11.50%		10,000,000	10,000,000	10,650,730
EnviroSolutions, Inc.	07/07/2012	Environmental Services	12.00% <sup>(6), (7)</sup>	P+775 <sup>(8)</sup>	14,228,928	13,445,577	10,771,298
EnviroSolutions, Inc. <sup>(9)</sup>	11/10/2010	Environmental Services			6,666,666	6,666,666	6,666,666
Fairway Group Acquisition Company	10/01/2014	Grocery	12.00%	L+950 & <sup>(8)</sup>	11,953,013	11,668,305	11,875,336
				P+850			
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.73%	L+225	8,775,000	8,775,000	4,852,575
Hughes Network Systems, L.L.C.	04/15/2014	Telecommunications	3.06%	L+250	5,000,000	5,000,000	4,708,335

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 <sup>(8)</sup>	24,937,500	24,447,386	24,937,500
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.59%	L+225	9,762,835	9,762,835	7,956,711
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,462,378	26,052,632
Mattress Holding Corp.	01/18/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.60%	L+225	3,844,931	3,844,931	3,159,253
Penton Media, Inc.	08/01/2014	Other Media	5.00% <sup>(6)</sup>	L+400 <sup>(8)</sup>	9,830,510	8,363,445	7,127,120
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+650 <sup>(8)</sup>	83,450	83,450	83,450
Questex Media Group LLC <sup>(9)</sup>	12/16/2012	Other Media			317,358	317,358	317,358
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 <sup>(8)</sup>	29,500,000	28,717,396	28,025,000
U.S. Xpress Enterprises, Inc.	10/12/2014	Cargo Transportation	6.50%	L+450 <sup>(8)</sup>	14,831,269	10,660,443	13,496,454
World Color Press Inc. <sup>(10)</sup>	07/21/2012	Printing and Publishing	9.00%	P+500 <sup>(8)</sup>	3,481,042	3,235,383	3,494,096
Yonkers Racing Corp. <sup>(5)</sup>	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		5,000,000	4,866,444	5,356,250

<b>Total First Lien Secured Debt</b>	222,201,237	219,367,560
--------------------------------------	-------------	-------------

<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>	600,409,815	606,401,552
--	-------------	-------------

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Affiliated Portfolio Companies 4.9%<sup>(1),(2)</sup></b>							
Subordinated Debt/Corporate Notes	1.6%						
Performance Holdings, Inc.	07/02/2014	Leisure, Amusement, Motion Pictures and Entertainment	14.25% <sup>(6)</sup>		\$ 5,640,077	\$ 5,463,471	\$ 5,513,175
<b>Second Lien Secured Debt 2.4%</b>							
Performance, Inc.	07/02/2013	Leisure, Amusement, Motion Pictures and Entertainment	5.99%	L+575	8,750,000	8,750,000	8,295,000
<b>Common Equity/Partnership Interest <sup>(7)</sup> 0.9%</b>							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			37,500	3,750,000	2,967,871
<b>Investments in Non-Controlled, Affiliated Portfolio Companies</b>						17,963,471	16,776,046
<b>Total Investments 180.5%</b>						618,373,286	623,177,598
<b>Cash Equivalents 0.4%</b>					1,303,502	1,303,502	1,303,502
<b>Total Investments and Cash Equivalents 180.9%</b>						\$ 619,676,788	\$ 624,481,100
<b>Liabilities in Excess of Other Assets (80.9)%</b>							(279,215,050)
<b>Net Assets 100.0%</b>							\$ 345,266,050

(1) As used in this Consolidated Schedule of Investments and in accordance with the 1940 Act, non-controlled means we own less than 25% of a portfolio company's voting securities.

(2) As used in this Consolidated Schedule of Investments and in accordance with the 1940 Act, non-affiliated means we own less than 5% of a portfolio company's voting securities and affiliated means that we own 5% or more, but less than 25%, of a portfolio company's voting securities.

(3) Valued based on our accounting policy (see Note 2 to our consolidated financial statements).

(4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offer Rate (LIBOR or L) or Prime Rate (Prime or P).

(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

(6) Coupon is payable in cash and/or in-kind (PIK).

(7) Non-income producing securities.

(8) Coupon is subject to a LIBOR or Prime rate floor.

(9) Represents the purchase of a security with delayed settlement. This security does not have a basis point spread above an index.

(10) Non-U.S. company or principal place of business outside the U.S.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS





**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****September 30, 2009**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 150.9%</b>							
<b>(1),(2)</b>							
<b>Subordinated Debt/Corporate Notes 50.6%</b>							
Affinion Group Holdings, Inc.	03/01/2012	Consumer Products	8.27% <sup>(6)</sup>	L+750	\$ 23,572,133	\$ 22,930,475	\$ 21,497,875
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% <sup>(6)</sup>		8,109,468	7,952,769	8,190,563
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% <sup>(6)</sup>		20,311,603	19,875,880	20,463,940
Digicel Limited <sup>(5)</sup>	04/01/2014	Telecommunications	12.00%		1,000,000	995,610	1,115,000
i2 Holdings Ltd.	06/06/2014	Aerospace and Defense	14.75% <sup>(6)</sup>		22,653,857	22,279,800	22,880,395
IDQ Holdings, Inc.	05/20/2012	Auto Sector	13.75%		20,000,000	19,632,400	20,060,000
Learning Care Group, Inc.	12/28/2015	Education	13.50% <sup>(6)</sup>		10,324,976	10,190,682	10,324,976
Realogy Corp.	04/15/2015	Buildings and Real Estate	12.38%		10,000,000	8,921,187	5,525,000
Trizetto Group, Inc.	10/01/2016	Insurance	13.50% <sup>(6)</sup>		20,197,856	20,010,210	20,652,308
UP Acquisitions Sub Inc.	02/08/2015	Oil and Gas	13.50%		21,000,000	20,472,809	21,420,000
<b>Total Subordinated Debt/Corporate Notes</b>						153,261,822	152,130,057
<b>Second Lien Secured Debt 42.1%</b>							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.36%	L+600	13,600,000	13,153,077	12,416,800
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.44%	L+700	12,000,000	11,735,965	11,364,000
Generics International (U.S.), Inc.	04/30/2015	Healthcare, Education and	7.78%	L+750	12,000,000	11,949,634	11,376,000
		Childcare					
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% <sup>(6)</sup>	L+700 <sup>(8)</sup>	2,309,343	2,309,344	2,309,344
Questex Media Group, Inc.	11/04/2014	Other Media	6.91% <sup>(7)</sup>	L+650	10,000,000	10,000,000	
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,387,500
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2015	Transportation	8.19%	L+775	10,000,000	9,941,121	7,100,000
Saint Acquisition Corp. <sup>(5)</sup>	05/15/2017	Transportation	12.50%		19,000,000	16,890,972	14,250,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and	6.00% <sup>(6)</sup>	L+575	21,500,000	18,855,728	19,414,500
		Childcare					
Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	7.25% <sup>(6)</sup>	L+700	22,500,000	22,488,166	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	7.04% <sup>(6)</sup>	L+675	16,792,105	16,247,489	15,264,023
<b>Total Second Lien Secured Debt</b>						143,571,496	126,382,167
<b>Preferred Equity/Partnership Interests<sup>(7)</sup> 3.6%</b>							
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		797	797,288	949,648
i2 Holdings Ltd.		Aerospace and Defense	12.00%		4,137,240	4,137,240	4,793,729
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,410,604

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

UP Holdings Inc., Class A-1 (UP Acquisitions Sub Inc.)	Oil and Gas	8.00%	91,608	2,499,067	3,094,252
VSS-AHC Holdings, LLC (Advanstar Inc.)	Other Media		319	318,896	
<b>Total Preferred Equity/Partnership Interests</b>				9,750,317	10,934,053

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
<b>Common Equity/Warrants/Partnership Interests <sup>(7)</sup> 4.5%</b>							
AHC Mezzanine (Advanstar Inc.)		Other Media			3,000	\$ 3,005,163	\$
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,627	16,271	215,547
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	3,200,000	6,696,281
i2 Holdings Ltd.		Aerospace and Defense			457,322	454,030	1,293,476
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport			106,299	1,779,455	2,391,463
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	6,467	1,337,451
UP Holdings Inc. (UP Acquisitions Sub Inc.)		Oil and Gas			91,608	916	1,656,350
VSS-AHC Holdings, Inc. (Advanstar Inc.) (Warrant)	11/06/2018	Other Media			85		
<b>Total Common Equity/Warrants/Partnership Interests</b>						8,462,302	13,590,568
<b>First Lien Secured Debt 50.1%</b>							
1-800 Contacts, Inc.	03/04/2015	Distribution	7.70%	P+295 <sup>(8)</sup>	13,929,825	11,941,660	13,720,877
Burlington Coat Factory Warehouse Corp.	05/28/2013	Retail Store	2.57%	L+225	2,837,374	2,835,299	2,578,464
Ceva Group PLC <sup>(5)</sup>	10/01/2016	Logistics	11.63%		7,500,000	7,284,525	7,284,525
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 <sup>(8)</sup>	10,000,000	9,421,220	10,050,000
EnviroSolutions, Inc.	07/07/2012	Environmental Services	11.00% <sup>(6)</sup>	P+775 <sup>(8)</sup>	14,175,260	13,391,908	12,715,207
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.49%	L+225	8,842,500	8,842,500	6,225,120
Hughes Network Systems, L.L.C.	04/15/2014	Telecommunications	2.88%	L+250	5,000,000	5,000,000	4,562,500
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.53%	L+225	9,817,568	9,817,568	4,810,608
Levlad, L.L.C.	03/08/2014	Consumer Products	7.75%	L+475	4,434,548	4,434,548	1,064,292
Lyondell Chemical Co.	12/15/2009	Chemicals, Plastics and Rubber	13.00%	L+1,000 <sup>(8)</sup>	12,668,615	12,965,067	13,169,026
Lyondell Chemical Co. <sup>(9)</sup>	12/15/2009	Chemicals, Plastics and Rubber			6,331,385	6,458,897	6,581,474
Mattress Holding Corp.	01/18/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.55%	L+225	3,910,200	3,910,200	3,022,585

# Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Mitchell International, Inc.	03/28/2014	Business Services	2.31%	L+200	1,910,204	1,910,204	1,687,346
National Bedding Co., L.L.C.	02/28/2013	Home and Office Furnishings, Housewares and Durable Consumer Products	2.26%	L+200	6,825,000	6,829,243	6,142,500
Penton Media, Inc.	02/01/2013	Other Media	2.73%	L+225	4,875,000	4,875,000	3,568,500
Philosophy, Inc.	03/16/2014	Consumer Products	2.25%	L+200	1,426,506	1,426,506	1,148,337
Questex Media Group, Inc.	05/04/2014	Other Media	5.25% <sup>(7)</sup>	L+200	4,886,667	4,886,667	2,912,600
Rexair, L.L.C.	06/30/2010	Retail	4.50%	L+425	6,695,795	5,507,847	5,189,241
Rexnord , L.L.C.	07/19/2013	Manufacturing/Basic Industry	2.50%	L+200	2,887,881	2,887,881	2,768,756
Sitel, L.L.C.	01/30/2014	Business Services	5.95%	L+550	2,682,328	2,682,328	2,226,332
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 <sup>(8)</sup>	20,000,000	19,203,528	19,600,000
U.S. Xpress Enterprises, Inc.	10/12/2014	Cargo Transportation	4.26%	L+400	14,966,254	10,315,732	10,887,950
World Color Press Inc.	07/21/2012	Printing	9.00%	P+500 <sup>(8)</sup>	3,500,000	3,177,842	3,491,250
Yonkers Racing Corp. <sup>(5)</sup>	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		5,000,000	4,857,698	5,200,000
<b>Total First Lien Secured Debt</b>						164,863,868	150,607,490
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						479,909,805	453,644,335

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (Continued)****September 30, 2009**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Affiliated Portfolio Companies 5.4%<sup>(1),(2)</sup></b>							
<b>Subordinated Debt/Corporate Notes 1.7%</b>							
Performance Holdings, Inc.	07/02/2014	Leisure, Amusement, Motion Pictures and Entertainment	14.25% <sup>(6)</sup>		\$ 5,077,822	\$ 4,878,081	\$ 4,988,960
<b>Second Lien Secured Debt 2.7%</b>							
Performance, Inc.	07/02/2013	Leisure, Amusement, Motion Pictures and Entertainment	6.24%	L+575	8,750,000	8,750,000	8,019,375
<b>Common Equity/Partnership Interest <sup>(7)</sup> 1.0%</b>							
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			37,500	3,750,000	3,107,403
<b>Investments in Non-Controlled, Affiliated Portfolio Companies</b>						17,378,081	16,115,738
<b>Total Investments 156.3%</b>						497,287,886	469,760,073
<b>Cash Equivalents 11.1%</b>					33,247,666	33,247,666	33,247,666
<b>Total Investments and Cash Equivalents 167.4%</b>						\$ 530,535,552	\$ 503,007,739
<b>Liabilities in Excess of Other Assets (67.4%)</b>							(202,427,471)
<b>Net Assets 100.0%</b>							\$ 300,580,268

(1) As used in this Schedule of Investments and in accordance with the 1940 Act, non-controlled means we own less than 25% of a portfolio company's voting securities.

(2) As used in this Schedule of Investments and in accordance with the 1940 Act, non-affiliated means we own less than 5% of a portfolio company's voting securities and affiliated means that we own 5% or more, but less than 25%, of a portfolio company's voting securities.

(3) Valued based on our accounting policy (See Note 2 to our financial statements).

(4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offer Rate (LIBOR or L ) or Prime Rate (Prime or P ).

(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

(6) Coupon is payable in cash and/or in-kind ( PIK ).

(7) Non-income producing securities.

(8) Coupon is subject to a LIBOR or Prime rate floor.

(9) Represents the purchase of a security with delayed settlement. This security does not have a basis point spread above an index.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



---

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2010**

**(Unaudited)**

*Except where the context suggests otherwise, the terms we, us, our or PennantPark Investment refer to PennantPark Investment Corporation and its Subsidiaries.*

**1. ORGANIZATION**

PennantPark Investment Corporation was organized as a Maryland corporation on January 11, 2007. PennantPark Investment's objective is to generate both current income and capital appreciation through debt and equity investments. PennantPark Investment invests primarily in U.S. middle-market companies in the form of mezzanine debt, senior secured loans and equity investments. Before the completion of its initial public offering on April 24, 2007, PennantPark Investment had limited operations other than the sale and issuance of 80,000 shares of common stock at a price of \$15.00 per share to PennantPark Investment Advisers, LLC (the Investment Adviser or PennantPark Investment Advisers), resulting in net proceeds of \$1.2 million.

On April 24, 2007 PennantPark Investment closed its initial public offering and sold 20,000,000 shares of common stock at a price of \$15.00 per share, resulting in net proceeds of \$279.6 million. Also, on April 24, 2007 PennantPark Investment closed a private placement to officers, directors, the Investment Adviser and managers of the Investment Adviser, pursuant to Regulation D promulgated under the Securities Act of 1933, and issued an additional 320,000 shares of common stock at a price of \$15.00 per share, resulting in net proceeds of \$4.8 million. On May 21, 2007, the underwriters of the initial public offering exercised their over-allotment option under the Underwriting Agreement and elected to purchase 625,000 shares of common stock at a price of \$15.00 per share, resulting in net proceeds of \$8.8 million.

On September 29, 2009, PennantPark Investment closed a follow-on public offering and sold 4,300,000 shares of common stock at a price of \$8.00 per share, resulting in net proceeds of \$32.5 million. On October 13, 2009, the underwriters of the follow-on offering exercised their over-allotment option under the underwriting agreement and elected to purchase an additional 440,000 shares of common stock at a price of \$8.00 per share resulting in net proceeds of \$3.3 million. On March 8, 2010, PennantPark Investment closed a follow-on public offering and sold 5,750,000 shares of common stock at a price of \$10.00 per share, resulting in net proceeds of \$54.3 million, inclusive of the underwriters over-allotment option.

PennantPark Investment received a letter on March 17, 2010 from the Small Business Administration (the SBA) that invited us to move forward with the licensing of PennantPark SBIC LP (the SBIC LP). SBIC LP and its general partner, PennantPark SBIC GP, LLC (the SBIC GP), were organized in Delaware on May 7, 2010 as a limited partnership and limited liability company, respectively. Both SBIC LP and SBIC GP (the Subsidiaries) are consolidated wholly-owned subsidiaries of PennantPark Investment. The SBIC LP's objective is to generate both current income and capital appreciation through debt and equity investments. SBIC LP invests in SBA eligible businesses that meet the investment criteria used by PennantPark Investment. The SBIC LP will be subject to regulation and oversight by the SBA. As of June 30, 2010, the SBIC has not received its license to operate as a Small Business Investment Company (SBIC) nor a debt commitment from the SBA. See note 12 for subsequent events regarding SBIC LP.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of PennantPark Investment's and its Subsidiaries' assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reported period. Actual results could differ from these estimates. Certain prior period amounts have been reclassified to conform to current period presentation and do not contain the consolidated results of any subsidiaries. All intercompany balances and transactions have been eliminated. References to the Accounting Standards Codification, or ASC, serve as a single source of accounting literature and are not intended to change accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring subsequent to June 30, 2010 through the date the consolidated financial statements are issued.

The consolidated financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X under the Exchange Act, we are providing

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

The significant accounting policies consistently followed by PennantPark Investment are:

### **(a) Investment Valuations**

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two broker/dealers if available, otherwise by a principal market maker or a primary market dealer. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. Subordinated debt, first lien secured debt and other debt investments with maturities greater than 60 days generally are valued by an independent pricing service or at the bid prices from at least two broker/dealers (if available, otherwise by a principal market maker or a primary market dealer). Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. We expect that there will not be readily available market values for most, if not all, of the 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 our documented valuation policy, described herein, and a consistently applied valuation process. With respect to investments for which there is no readily available market value, valuation methods include, but are not limited to, comparisons of financial ratios of the portfolio companies that issued such private securities to peer companies that are public. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by that external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material. See Note 5 to the consolidated financial statements.



**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2010**

**(Unaudited)**

With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (i) 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;
- (ii) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (iii) 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.
- (iv) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and that of the independent valuation firms and responds and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (v) The 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.

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.

***(b) Security Transactions, Revenue Recognition, and Realized/Unrealized Gains or Losses***

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment and credit facility values 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 payment-in-kind (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 and market discount or premium are capitalized, and we then accrete or amortize such amounts using the effective interest method as interest income. We record prepayment premiums 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.

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when 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**

Since May 1, 2007, PennantPark Investment has complied with the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended, (the Code) and expects to be subject to tax as a regulated investment company, or RIC. As a RIC, PennantPark Investment accounts for income taxes using the asset liability method prescribed by ASC 740, *Income Taxes*. Under this method, income taxes were 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 bases of existing assets and liabilities. Based upon PennantPark Investment's qualification and election to be subject to tax as a RIC, we do not anticipate paying any material level of taxes in the future. Although we are subject to tax as a RIC, we have elected to retain a portion of our calendar year income and pay an excise tax of \$0.1 million for the nine months ended June 30, 2010. PennantPark Investment recognizes in its consolidated financial statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. We did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our inception-to-date federal tax years remain subject to examination by the Internal Revenue Service.

Book and tax basis differences relating to permanent book and tax differences are reclassified among PennantPark Investment's capital accounts, as appropriate. Additionally, the character of income and gain distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America.

---

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2010**

**(Unaudited)**

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

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a dividend is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually.

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

***(e) Consolidation***

As permitted under Regulation S-X and the AICPA Audit and Accounting Guide for Investment Companies, 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 the Subsidiaries in our interim consolidated financial statements.

***(f) New Accounting Pronouncements and Accounting Standards Updates***

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures*, to clarify and amend ASC 820-10. In particular, it requires additional disclosures with regards to transfers into and out of *Levels 1* and *2*. It also requires that entities disclose on a gross basis purchases, sales, issuances, and settlements within the *Level 3* fair value roll-forward. ASU 2010-06 also clarifies existing fair value disclosures about the level of disaggregation as well as inputs and valuation techniques for both recurring and nonrecurring fair value measurements that fall into *Level 2* or *3*. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales and settlements in the roll-forward of activity in *Level 3* fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the additional disclosure requirements of ASU 2010-06 did not materially impact our consolidated financial statements. The disclosures regarding the disaggregation of purchases, sales and settlements in the roll-forward of activity in *Level 3* fair value measurements is not expected to have a material impact on our consolidated financial statements.

**3. AGREEMENTS**

PennantPark Investment has entered into an investment management agreement (the "Investment Management Agreement") with the Investment Adviser, which was re-approved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment in February 2010. Under this agreement the Investment Adviser, subject to the overall supervision of PennantPark Investment's board of directors, manages the day-to-day operations of, and provides investment advisory services to, PennantPark Investment. For providing these services, the Investment Adviser receives a fee from PennantPark Investment, consisting of two components: a base management fee and an incentive fee (collectively, "Management Fees").

The base management fee is calculated at an annual rate of 2.00% on PennantPark Investment's gross assets (net of U.S. Treasury Bills and/or temporary draws on the credit facility or average adjusted gross assets, if any, see Note 10). Although the base management fee is 2.00% of our average adjusted gross assets, the Investment Adviser agreed to waive a portion of the base management fee such that the base management fee equaled 1.50% from the consummation of the initial public offering through September 30, 2007 and 1.75% from October 1, 2007 through March 31, 2008. The base management fee has been 2.00% since March 31, 2008 and is payable quarterly in arrears. The base management fee is calculated based on the average value of our average adjusted gross assets at the end of the two most recently completed calendar quarters,

## Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For the three and nine months ended June 30, 2010, the Investment Adviser earned a base management fee of \$3.0 million and \$8.3 million, respectively, from us. For the three and nine months ended June 30, 2009, the Investment Adviser earned a base management fee of \$1.9 million and \$5.5 million, respectively, from us.

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2010**

**(Unaudited)**

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on PennantPark Investment's Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, distribution income and any other income, including any other fees other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus PennantPark Investment's operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of PennantPark Investment's 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). PennantPark Investment pays the Investment Adviser an incentive fee with respect to PennantPark Investment's Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which PennantPark Investment's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of PennantPark Investment's 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 PennantPark Investment's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

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), commencing on December 31, 2007, and equals 20.0% of PennantPark Investment's 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. However, the incentive fee determined as of December 31, 2007 was calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and unrealized capital depreciation from inception. For the three and nine months ended June 30, 2010, the Investment Adviser earned an incentive fee of \$2.2 million and \$5.8 million, respectively from us. For the three and nine months ended June 30, 2009, the Investment Adviser earned an incentive fee of \$1.4 million and \$4.2 million, respectively, from us.

PennantPark Investment has also entered into an administration agreement (the "Administration Agreement") with PennantPark Investment Administration, LLC (the "Administrator" or "PennantPark Investment Administration"), which was re-approved by our board of directors including a majority of our directors who are not interested persons of PennantPark Investment in February 2010. Under our Administration Agreement, the Administrator performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Administrator assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under our Administration Agreement are equal to an amount based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the cost of compensation and related expenses of our Chief Compliance Officer and Chief Financial Officer and their respective staffs. Under our Administration Agreement, the Administrator provides managerial assistance on our behalf to those portfolio companies to which we provide such assistance. To the extent that our Administrator outsources any of its functions, we pay the fees associated with such functions on a direct basis without profit to the Administrator. Reimbursement for certain of these costs is included in administrative services expenses in the consolidated statement of operations. For the three and nine months ended June 30, 2010, the Investment Adviser was reimbursed \$0.3 million and \$1.8 million, respectively, from us, including expenses it incurred on behalf of the Administrator, for services described above. For the three and nine months ended June 30, 2009, the Investment Adviser was reimbursed \$0.3 million and \$1.4 million, respectively, from us, including expenses it incurred on behalf of the Administrator.



**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2010****(Unaudited)****4. INVESTMENTS**

Purchases of long-term investments including PIK for the three and nine months ended June 30, 2010 totaled \$94.9 million and \$217.3 million, respectively. For the same period in the prior year, purchases of long-term investments including PIK totaled \$33.4 million and \$50.5 million, respectively. Sales and repayments of long-term investments for the three and nine months ended June 30, 2010 totaled \$59.2 million and \$82.7 million, respectively. For the same period in the prior year, sales and repayments of long-term investments totaled \$7.3 million and \$12.9 million, respectively.

Investments and cash equivalents consisted of the following:

	<b>June 30, 2010</b>		<b>September 30, 2009</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
First lien	\$ 222,201,237	\$ 219,367,560	\$ 164,863,868	\$ 150,607,490
Second lien	153,650,106	150,453,542	152,321,496	134,401,542
Subordinated debt / corporate notes	211,135,970	213,477,928	158,139,903	157,119,017
Preferred equity	9,894,691	9,048,102	9,750,317	10,934,053
Common equity	21,491,282	30,830,466	12,212,302	16,697,971
<b>Total Investments</b>	<b>618,373,286</b>	<b>623,177,598</b>	<b>497,287,886</b>	<b>469,760,073</b>
Cash equivalents	1,303,502	1,303,502	33,247,666	33,247,666
<b>Total Investments and cash equivalents</b>	<b>\$ 619,676,788</b>	<b>\$ 624,481,100</b>	<b>\$ 530,535,552</b>	<b>\$ 503,007,739</b>

The table below describes investments by industry classification and enumerates the percentage, by market value, of the total portfolio assets (excluding cash equivalents) in such industries as of June 30, 2010 and September 30, 2009.

<b>Industry Classification</b>	<b>June 30, 2010</b>	<b>September 30, 2009</b>
Business Services	12%	7%
Hotels, Motels, Inns and Gaming	8	7
Aerospace and Defense	6	8
Home and Office Furnishings, Housewares and Durable Consumer Products	6	3
Education	5	2
Healthcare, Education and Childcare	5	7
Chemicals, Plastic and Rubber	4	9
Consumer Products	4	5
Energy / Utilities	4	5
Insurance	4	5
Oil and Gas	4	6
Printing and Publishing	4	
Telecommunications	4	
Transportation	4	5
Buildings and Real Estate	3	3

# Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Cargo Transport	3	3
Environmental Services	3	3
Leisure, Amusement, Motion Picture and Entertainment	3	3
Other Media	3	3
Communication	2	
Distribution	2	3
Financial Services	2	3
Grocery	2	
Diversified / Conglomerate Services	2	
Logistics	1	2
Auto Sector		4
Other		4
Total	100%	100%



---

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2010**

**(Unaudited)**

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Effective October 1, 2008, we adopted ASC 820, *Fair Value Measurements*, for cash and cash equivalents, investments and long-term credit facility. We realized no gain or loss as a result of the adoption of ASC 820. Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of PennantPark Investment. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances.

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. Substantially, all of our investments and long-term credit facility are classified as *Level 3*.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as *Level 3* information, assuming no additional corroborating evidence was available.

In addition to using the above inputs in cash and cash equivalents, investments and long-term credit facility valuations, PennantPark Investment employs the valuation policy approved by its board of directors that is consistent with ASC 820 (See Note 2). Consistent with our valuation policy, PennantPark Investment evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value.

Our investments are generally structured as debt and equity investments in the form of mezzanine debt, senior secured loans and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values. 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 and performance multiples, among other factors. These nonpublic investments are included in *Level 3* of the fair value hierarchy.

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2010****(Unaudited)**

At June 30, 2010 and September 30, 2009, our cash and cash equivalents, investments and our long-term credit facility were categorized as follows in the fair value hierarchy for ASC 820 purposes:

**At June 30, 2010**

Description	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Loan and debt investments	\$ 583,299,030	\$	\$	\$ 583,299,030
Equity investments	39,878,568	4,582,745		35,295,823
Total Investments	623,177,598	4,582,745		618,594,853
Cash Equivalents	1,303,502	1,303,502		
Total Investments and cash equivalents	624,481,100	5,886,247		618,594,853
Long-Term Credit Facility	\$ (230,476,000)	\$	\$	\$ (230,476,000)

**At September 30, 2009**

Description	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Loan and debt investments	\$ 442,128,049	\$	\$	\$ 442,128,049
Equity investments	27,632,024			27,632,024
Total Investments	469,760,073			469,760,073
Cash Equivalents	33,247,666	33,247,666		
Total Investments and cash equivalents	503,007,739	33,247,666		469,760,073
Long-Term Credit Facility	\$ (168,475,380)	\$	\$	\$ (168,475,380)

The following tables show a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (*Level 3*) for the nine months ended June 30, 2010 and 2009:

**Period Ended June 30, 2010**

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Description	Loan and debt investments	Equity investments	Totals
Beginning Balance, September 30, 2009	\$ 442,128,049	\$ 27,632,024	\$ 469,760,073
Realized (losses)	(13,639,393)	(3,005,163)	(16,644,556)
Unrealized appreciation	29,508,937	705,441	30,214,378
Purchases, PIK and net discount accretion	209,323,669	8,657,354	217,981,023
Sales / repayments	(76,384,680)		(76,384,680)
Non-cash exchanges	(7,637,552)	1,306,167	(6,331,385)
Transfers in and /or out of <i>Level 3</i>			
Ending Balance, June 30, 2010	\$ 583,299,030	35,295,823	618,594,853
Net change in unrealized appreciation (depreciation) for the nine months ended June 30, 2010 within the net change in unrealized appreciation on investments in our consolidated statement of operations attributable to our <i>Level 3</i> assets still held at the reporting date:	\$ 12,834,100	\$ (2,299,720)	\$ 10,534,380

**Period Ended June 30, 2009**