

PENNANTPARK INVESTMENT CORP
Form 10-Q
August 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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

(State or other jurisdiction of incorporation or organization)

20-8250744

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

590 Madison Avenue, 15th Floor

New York, N.Y.

(Address of principal executive offices)

10022

(Zip Code)

(212) 905-1000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was 69,988,077.

PENNANTPARK INVESTMENT CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

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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, under the Securities Exchange Act of 1934, as amended, or the Exchange Act. 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 I, 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; “Taxable Subsidiaries” refers to PNNT Cascade Environmental Holdings, LLC, PNNT CI (Galls) Prime Investment Holdings, LLC, PNNT ecoserve, LLC, PNNT Investment Holdings, LLC and PNNT New Gulf Resources, 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% notes due 2025; “2019 Notes” refers to our 4.50% notes due 2019; “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.

Item 1. Consolidated Financial Statements

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	June 30, 2018 (unaudited)	September 30, 2017
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$790,789,351 and \$824,106,322, respectively)	\$800,681,196	\$849,351,548
Non-controlled, affiliated investments (cost—\$91,509,529 and \$185,799,943, respectively)	75,815,977	189,674,977
Controlled, affiliated investments (cost—\$249,001,007 and \$200,120,407, respectively)	148,247,663	114,550,983
Total of investments (cost—\$1,131,299,887 and \$1,210,026,672, respectively)	1,024,744,836	1,153,577,508
Cash and cash equivalents (cost—\$107,125,512 and \$38,182,373, respectively)	107,091,091	38,202,068
Interest receivable	7,967,079	5,906,976
Prepaid expenses and other assets	1,578,759	4,509,289
Total assets	1,141,381,765	1,202,195,841
Liabilities		
Distributions payable	12,597,854	12,790,950
Payable for investments purchased	14,700,000	1,014,000
Credit Facility payable (cost—\$41,520,000 and \$79,392,900, respectively) (See Notes 5 and 10)	39,310,563	76,037,341
2019 Notes payable (par—\$250,000,000) (See Notes 5 and 10)	251,432,500	255,665,000
SBA debentures payable, net (par—\$180,000,000 and \$199,000,000, respectively) (See Notes 5 and 10)	175,240,289	194,364,653
Base management fee payable, net (See Note 3)	3,772,670	4,845,237
Performance-based incentive fee payable, net (See Note 3)	2,497,843	2,270,008
Interest payable on debt	5,001,613	6,876,756
Accrued other expenses	735,749	1,523,425
Total liabilities	505,289,081	555,387,370
Commitments and contingencies (See Note 11)		
Net assets		
Common stock, 69,988,077 and 71,060,836 shares issued and outstanding, respectively.		
Par value \$0.001 per share and 100,000,000 shares authorized	69,988	71,061
Paid-in capital in excess of par value	810,962,271	818,737,784
Undistributed net investment income	4,512,842	3,333,195

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Accumulated net realized loss on investments	(73,643,974)	(116,598,355)
Net unrealized depreciation on investments	(106,585,380)	(56,425,773)
Net unrealized depreciation (appreciation) on debt	776,937	(2,309,441)
Total net assets	\$636,092,684	\$646,808,471
Total liabilities and net assets	\$1,141,381,765	\$1,202,195,841
Net asset value per share	\$9.09	\$9.10

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	\$ 19,491,552	\$ 20,154,976	\$ 60,608,891	\$ 64,687,668
Payment in kind	1,585,945	1,211,753	4,545,929	2,641,506
Other income	1,494,072	946,587	5,567,138	4,614,740
From non-controlled, affiliated investments:				
Interest	253,191	2,415,807	2,845,090	8,197,246
Payment in kind	—	1,334,809	1,807,655	4,219,437
Other income	—	1,587,435	—	1,609,935
From controlled, affiliated investments:				
Interest	1,480,768	208,432	2,931,462	598,976
Payment in kind	453,974	3,224,520	2,347,371	10,098,714
Total investment income	24,759,502	31,084,319	80,653,536	96,668,222
Expenses:				
Base management fee (See Note 3)	3,772,669	5,842,601	13,381,545	18,449,890
Performance-based incentive fee (See Note 3)	2,497,843	1,358,165	8,528,663	8,375,564
Interest and expenses on debt (See Note 10)	5,565,240	6,723,980	17,363,511	20,638,611
Administrative services expenses (See Note 3)	521,625	894,000	1,564,875	2,682,000
Other general and administrative expenses	626,213	665,653	1,882,793	2,002,643
Expenses before Management Fees waiver and provision for taxes	12,983,590	15,484,399	42,721,387	52,148,708
Management Fees waiver (See Note 3)	—	(1,152,123)	(1,427,253)	(4,292,073)
Provision for taxes	—	425,000	—	1,275,000
Credit Facility amendment costs (See Notes 5 and 10)	—	3,866,633	—	3,866,633
Net expenses	12,983,590	18,623,909	41,294,134	52,998,268
Net investment income	11,775,912	12,460,410	39,359,402	43,669,954
Realized and unrealized (loss) gain on investments and debt:				
Net realized gain (loss) on investments on:				
Non-controlled, non-affiliated investments	17,085,362	11,693,836	31,754,691	2,746,747
Non-controlled and controlled, affiliated investments	342,086	(1,546,075)	11,199,690	(33,537,057)
Net realized gain (loss) on investments	17,427,448	10,147,761	42,954,381	(30,790,310)
Net change in unrealized (depreciation) appreciation on:				
Non-controlled, non-affiliated investments	(12,925,765)	(5,731,239)	(15,407,098)	7,625,092
Non-controlled and controlled, affiliated investments	(927,824)	4,039,995	(34,752,509)	36,206,851
Debt depreciation (appreciation) (See Notes 5 and 10)	1,560,376	(2,137,862)	3,086,378	(2,423,726)

Net change in unrealized (depreciation) appreciation on investments and debt	(12,293,213)	(3,829,106)	(47,073,229)	41,408,217
Net realized and unrealized gain (loss) from investments and debt	5,134,235	6,318,655	(4,118,848)	10,617,907
Net increase in net assets resulting from operations	\$16,910,147	\$18,779,065	\$35,240,554	\$54,287,861
Net increase in net assets resulting from operations per common share (See Note 7)	\$0.24	\$0.26	\$0.50	\$0.77
Net investment income per common share	\$0.17	\$0.18	\$0.55	\$0.61

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Nine Months Ended June 30,	
	2018	2017
Net increase in net assets resulting from operations:		
Net investment income	\$39,359,402	\$43,669,954
Net realized gain (loss) on investments	42,954,381	(30,790,310)
Net change in unrealized (depreciation) appreciation on investments	(50,159,607)	43,831,943
Net change in unrealized depreciation (appreciation) on debt	3,086,378	(2,423,726)
Net increase in net assets resulting from operations	35,240,554	54,287,861
Distributions to stockholders:	(38,179,755)	(45,478,935)
Capital transactions:		
Repurchase of common stock (See Note 12)	(7,776,586)	—
Net (decrease) increase in net assets	(10,715,787)	8,808,926
Net assets:		
Beginning of period	646,808,471	643,366,856
End of period	\$636,092,684	\$652,175,782
Undistributed net investment income, at end of period	\$4,512,842	\$1,310,399
Capital share activity:		
Shares of common stock repurchased	(1,072,759)	—

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$35,240,554	\$54,287,861
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net change in net unrealized depreciation (appreciation) on investments	50,159,607	(43,831,943)
Net change in unrealized (depreciation) appreciation on debt	(3,086,378)	2,423,726
Net realized (gain) loss on investments	(42,954,381)	30,790,310
Net accretion of discount and amortization of premium	(1,684,494)	(2,327,068)
Purchases of investments	(423,297,254)	(378,816,543)
Payment-in-kind income	(9,698,374)	(17,060,002)
Proceeds from dispositions of investments	556,356,780	465,353,962
Amortization of deferred financing costs	1,597,386	512,619
Increase in interest receivable	(2,060,103)	(866,582)
Increase in receivable for investments sold	—	(12,478,824)
Decrease (increase) in prepaid expenses and other assets	2,930,530	(2,535,065)
Increase in payable for investments purchased	13,686,000	—
Decrease in interest payable on debt	(1,875,143)	(1,557,797)
Decrease in base management fee payable, net	(1,072,567)	(167,046)
Increase (decrease) in performance-based incentive fee payable, net	227,835	(1,724,585)
(Decrease) increase in accrued other expenses	(787,676)	174,591
Net cash provided by operating activities	173,682,322	92,177,614
Cash flows from financing activities:		
Repurchase of common stock	(7,776,586)	—
Capitalized borrowing costs	(1,721,750)	(666,875)
Distributions paid to stockholders	(38,372,850)	(52,585,018)
Repayments under 2025 Notes	—	(71,250,000)
Borrowings under SBA debentures	71,000,000	27,500,000
Repayments under SBA debentures	(90,000,000)	—
Borrowings under Credit Facility	132,520,000	363,760,000
Repayments under Credit Facility	(170,392,900)	(331,994,400)
Net cash used in by financing activities	(104,744,086)	(65,236,293)
Net increase in cash and cash equivalents	68,938,236	26,941,321
Effect of exchange rate changes on cash	(49,213)	646,698
Cash and cash equivalents, beginning of period	38,202,068	75,608,113
Cash and cash equivalents, end of period	\$107,091,091	\$103,196,132
Supplemental disclosure of cash flow information:		

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Interest paid	\$17,641,268	\$21,683,789
Taxes paid	\$322,693	\$1,280,898
Non-cash exchanges and conversions	\$31,942,605	\$37,712,296

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2018

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point		Cost	Fair Value ⁽³⁾
				Spread			
				Above Index (4)	Par / Shares		
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—125.9% ⁽²⁾							
First Lien Secured Debt—52.9%							
Allied America, Inc.	08/08/2022	Business Services		3M			
			9.34 %	L+700	21,489,783	\$21,152,064	\$21,597,231
Allied America, Inc. (Revolver) ⁽⁷⁾	08/08/2022	Business Services	—	—		—	—
					2,000,000		
Bazaarvoice, Inc.	02/01/2024	Printing and Publishing		1M			
			10.09 %	L+800	14,962,500	14,818,609	14,812,875
Bottom Line Systems, LLC	02/13/2023	Healthcare, Education and Childcare		1M			
			9.59 %	L+750	19,583,330	19,337,572	19,583,330
Broder Bros., Co.	12/02/2022	Consumer Products		3M			
			10.31 %	L+800	31,838,384	31,838,384	31,838,384
Cano Health, LLC	12/23/2024	Healthcare, Education and Childcare		1M			
			10.49 %	L+850	24,973,016	24,443,469	24,973,016
Cano Health, LLC (Revolver)	09/21/2024	Healthcare, Education and Childcare		1M			
			10.51 %	L+850	1,305,000	1,305,000	1,305,000
Cano Health, LLC (Revolver) ⁽⁷⁾	09/21/2024	Healthcare, Education and Childcare	—	—		—	—
					1,845,000		
DermaRite Industries LLC	03/03/2022	Manufacturing / Basic Industries		1M			
			9.09 %	L+700	9,875,000	9,756,920	9,719,077
Deva Holdings, Inc.	10/31/2023	Consumer Products		3M			
			8.34 %	L+625	4,975,000	4,885,570	4,975,000
Deva Holdings, Inc. ⁽⁷⁾	10/31/2023	Consumer Products	—	—		—	—
					385,000		
eCommission Financial Services, Inc. ⁽¹¹⁾	08/29/2022	Financial Services		1M			
				L+750			
			9.59 %		19,850,000	19,507,541	19,850,000
	08/29/2022	Financial Services	—	—	4,000,000	—	—

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eCommission Financial Services, Inc. (7), (11)							
eCommission Financial Services, Inc. (Revolver) (7), (11)	08/29/2021	Financial Services	—	—	—	—	—
					4,000,000		
Hollander Sleep Products, LLC	06/09/2021	Consumer Products	10.33 %	3M L+800	19,713,838	19,372,604	19,713,838
Impact Group, LLC	06/27/2021	Personal, Food and Miscellaneous Services	8.84 %	3M L+650	20,427,156	20,183,705	20,183,437
Impact Group, LLC (7)	06/27/2021	Personal, Food and Miscellaneous Services	—	—	14,572,844	—	—
Juniper Landscaping of Florida, LLC	12/22/2021	Personal, Food and Miscellaneous Services	11.49 %	1M L+950	13,361,625	13,160,932	13,361,625
K2 Pure Solutions NoCal, L.P.	02/19/2021	Chemicals, Plastics and Rubber	10.98 %	1M L+900	14,522,529	14,303,451	14,522,529
Ox Two, LLC	02/27/2021	Building Materials	12.25 %	P+725	22,359,375	21,912,188	22,135,782
Ox Two, LLC (Revolver)	02/27/2021	Building Materials	12.25 %	P+725	750,000	750,000	750,000
Ox Two, LLC (Revolver) (7)	02/27/2021	Building Materials	—	—	1,750,000	—	—
Research Horizons, LLC	06/28/2021	Media	8.35 %	3M L+625	22,500,000	22,050,431	22,050,000
Research Horizons, LLC (7)	06/28/2021	Media	—	—	9,121,622	—	—
Research Horizons, LLC (Revolver)	06/28/2021	Media	8.35 %	3M L+625	1,783,784	1,783,784	1,783,784
Research Horizons, LLC (Revolver) (7)	06/28/2021	Media	—	—	2,270,270	—	—
SFP Holding, Inc.	09/01/2021	Buildings and Real Estate	8.19 %	3M L+625	20,529,688	20,232,051	20,529,688
SFP Holding, Inc. (7)	09/01/2021	Buildings and Real Estate	—	—	1,875,000	—	—
SFP Holding, Inc. (Revolver)	09/01/2021	Buildings and Real Estate	8.62 %	3M L+625	2,000,000	2,000,000	2,000,000
SFP Holding, Inc. (Revolver) (7)	09/01/2021	Buildings and Real Estate	—	—	500,000	—	—
Triad Manufacturing, Inc.	12/28/2020	Manufacturing / Basic Industries	13.34 %	1M L+1,125	23,718,379	23,441,530	23,125,419
US Med Acquisition, Inc.	08/13/2021	Healthcare, Education and Childcare	11.33 %	1M L+900	8,498,438	8,498,438	8,073,515
Whitney, Bradley & Brown, Inc.	10/18/2021	Aerospace and Defense	11.10 %	1M L+900	19,353,750	19,009,708	19,353,750
Total First Lien Secured Debt						333,743,951	336,237,280
Second Lien Secured Debt—61.5%							
Condor Borrower, LLC	04/25/2021	Business Services	11.11 %	3M L+875	12,500,000	12,265,646	12,500,000
DecoPac, Inc.	03/31/2021	Beverage, Food and Tobacco	10.58 %	3M L+825	23,024,259	22,596,259	23,024,259

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Howard Berger Co. LLC	09/30/2020	Distribution	12.34 %	3M	L+1,000	44,625,000	43,494,412	42,393,750
			(PIK %)					
			4.99					
Infogroup, Inc.	04/03/2024	Other Media	11.58 %	3M	L+925	20,400,000	20,044,407	20,196,000
Integrity Marketing Partners, LLC	01/02/2024	Banking, Finance, Insurance and Real Estate	11.09 %	1M	L+900	6,000,000	5,910,275	5,910,000
Intermediate Transportation 100, LLC ⁽⁵⁾	03/01/2024	Chicago Transport	11.00 %	—		455,974	404,907	455,974
			(PIK %)					
			11.00					
MailSouth, Inc.	10/23/2024	Printing and Publishing	12.00 %	3M	L+925	48,425,000	47,478,662	47,456,500
MBS Holdings, Inc.	01/02/2024	Telecommunications	10.59 %	1M	L+850	15,000,000	14,700,000	14,700,000
Parq Holdings Limited Partnership ^{(8), (11)}	12/17/2024	Hotels, Motels, Inns and Gaming	14.45 %	3M	L+1,200	76,500,000	76,500,000	83,235,362
Pathway Partners Vet Management LLC	10/10/2024	Healthcare, Education and Childcare	10.09 %	1M	L+800	13,360,700	13,305,284	13,227,093
Pathway Partners Vet Management LLC ⁽⁷⁾	10/10/2024	Healthcare, Education and Childcare	—	—		10,639,300		(106,393)
PT Network, LLC	04/12/2024	Healthcare, Education and Childcare	12.34 %	3M	L+1,000	41,666,667	40,937,919	41,250,000
Shift4 Payments, LLC	11/28/2024	Financial Services	10.59 %	1M	L+850	37,000,000	36,827,761	36,722,500
Veritext Corp.	01/30/2024	Business Services	11.33 %	3M	L+900	18,834,375	18,402,262	18,834,375
Winter Park Intermediate, Inc.	04/03/2026	Auto Sector	10.50 %	1M	L+850	32,000,000	31,367,579	31,680,000
Total Second Lien Secured Debt							384,235,373	391,479,420
Subordinated Debt/Corporate Notes—5.3%								
Cascade Environmental LLC	08/20/2024	Environmental Services	14.50 %	—		34,707,778	34,272,557	33,840,084
			(PIK %)					
			12.50					
Preferred Equity/Partnership Interests—0.5%								
AH Holdings, Inc.	—	Healthcare, Education and Childcare	6.00 %	—	211		500,000	477,479
Alegeus Technologies Holdings Corp.	—	Financial Services	—	—	949		949,050	1,295,211
CI (PTN) Investment Holdings II, LLC ⁽⁹⁾	—	Healthcare, Education and Childcare	—	—	36,450		546,750	554,161
	—	Business Services	—	—	556,000		64,277	64,277

Condor Holdings
Limited ^{(8), (11)}

Condor Top Holdco Limited ^{(8), (11)}	—	Business Services	—	—	556,000	491,723	491,723
HW Holdco, LLC	—	Other Media	8.00	%	—	3,591	—
Total Preferred Equity/Partnership Interests						2,551,800	2,908,883

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

JUNE 30, 2018

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point		Cost	Fair Value ⁽³⁾
				Spread			
				Above Index ⁽⁴⁾	Par / Shares		
Common Equity/Partnership Interests/Warrants—5.7%							
AH Holdings, Inc. (Warrants)	03/23/2024	Healthcare, Education and Childcare	—	—	753	\$—	\$—
Alegeus Technologies Holdings Corp.	—	Financial Services	—	—	1	950	1,297
ASP LCG Holdings, Inc. (Warrants)	05/05/2026	Education	—	—	933	586,975	1,651,653
Autumn Games, LLC	—	Broadcasting and Entertainment	—	—	1,333,330	3,000,000	—
Cardinal Logistics Holdings LLC (Intermediate Transportation 100, LLC) ⁽⁹⁾	—	Cargo Transport	—	—	—	⁽¹³⁾ 5,411,024	3,789,585
Cascade Environmental LLC ⁽⁹⁾	—	Environmental Services	—	—	33,901	2,852,080	1,186,539
CI (Allied) Investment Holdings, LLC (Allied America, Inc.) ⁽⁹⁾	—	Business Services	—	—	84,000	840,004	1,089,223
CI (PTN) Investment Holdings II, LLC	—	Healthcare, Education and	—	—	333,333	5,000,000	5,000,000

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Childcare							
(PT Network, LLC) (9)							
CI (Summit) Investment Holdings LLC (SFP Holdings, Inc.)	—	Buildings and Real Estate	—	—	100,000	1,000,000	1,138,832
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	3,449	3,448,658	3,953,298
eCommission Holding Corporation (11)	—	Financial Services	—	—	80	800,000	1,116,857
Faraday Holdings, LLC	—	Building Materials	—	—	4,277	217,635	1,273,251
HW Holdco, LLC	—	Other Media	—	—	388,378	—	2,815,458
Infogroup Parent Holdings, Inc.	—	Other Media	—	—	181,495	2,040,000	2,128,192
ITC Rumba, LLC (Cano Health, LLC) (9)	—	Healthcare, Education and Childcare	—	—	204,985	2,049,849	3,504,860
Kadmon Holdings, Inc. (12)	—	Healthcare, Education and Childcare	—	—	252,014	2,265,639	1,005,536
LaMi Acquisition, LLC (9)	—	Distribution	—	—	19	493,280	563,764
Lariat ecoserv Co-Invest Holdings, LLC (9)	—	Environmental Services	—	—	1,148,703	1,158,703	575,835
Patriot National, Inc. (12)	—	Insurance	—	—	100,885	238,038	3,380
WBB Equity, LLC (Whitney, Bradley & Brown, Inc.) (9)		Aerospace and Defense	—	—	628,571	628,571	886,286
Wheel Pros Holdings, L.P. (Winter Park Intermediate, Inc.)		Auto Sector			3,200,000	3,200,000	3,741,770
ZS Juniper L.P. (Juniper Landscaping of Florida, LLC) (9)	—	Personal, Food and Miscellaneous Services	—	—	754	754,264	789,913
Total Common Equity/Partnership Interests/Warrants						35,985,670	36,215,529
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						790,789,351	800,681,196
Investments in Non-Controlled, Affiliated Portfolio Companies—11.9% (2)							
First Lien Secured Debt—1.9%							
02/02/2021 and Gas			10.98 %		10,153,569	10,087,246	10,153,569

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U.S. Well Services, LLC				1M L+900			
U.S. Well Services, LLC (Revolver)	02/02/2021 and Gas	7.98 %		1M L+600	1,680,528	1,680,528	1,680,528
U.S. Well Services, LLC (Revolver) ⁽⁷⁾	02/02/2021 and Gas	—		—	511,893	—	—
Total First Lien Secured Debt						11,767,774	11,834,097
Common Equity/Partnership Interests/Warrants—10.0%							
Affinion Group Holdings, Inc.	— Consumer Products	—		—	859,496	30,503,493	16,610,368
Affinion Group Holdings, Inc., Series C and Series D	— Consumer Products	—		—	37,181	10,265,973	28,839
Big Run, Inc.	— Environmental Services	—		—	143,668	674,943	449,962
ETX Energy, LLC ⁽⁹⁾	— Oil and Gas	—		—	1,658,389	29,711,576	32,977,668
ETX Energy Management Company, LLC	— Oil and Gas	—		—	1,754,104	1,562,020	1,733,129
USWS Holdings, LLC - Class A and Class B ⁽⁹⁾	— Oil and Gas	—		—	8,190,817	7,023,750	12,181,914
Total Common Equity/Partnership Interests/Warrants						79,741,755	63,981,880
Total Investments in Non-Controlled, Affiliated Portfolio Companies						91,509,529	75,815,977

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

JUNE 30, 2018

(Unaudited)

				Basis Point				
				Spread				
				Above				
				Index				
				Par /				
Issuer Name	Maturity / Expiration	Industry	Current Coupon	(4)	Shares	Cost	Fair Value ⁽³⁾	
Investments in Controlled, Affiliated Portfolio Companies—23.3%, ⁽²⁾								
First Lien Secured Debt—14.8%								
AKW Holdings Limited ^{(8), (10), (11)}	03/13/2024	Healthcare, Education and Childcare	6.37 %	3M L+575	£28,000,000	\$39,051,600	\$36,967,112	
RAM Energy LLC	07/01/2025	Energy and Utilities	8.00 %	—	35,000,000	35,000,000	35,000,000	
RAM Energy LLC (Revolver)	07/01/2025	Energy and Utilities	8.00 %	—	4,000,000	4,000,000	4,000,000	
RAM Energy LLC (Revolver) ⁽⁷⁾	07/01/2025	Energy and Utilities	—	—	11,000,000	—	—	
Superior Digital Displays, LLC	12/31/2024	Media	7.82 % (PIK 7.82 %)	3M L+550	22,721,234	22,176,125	18,450,000	
Total First Lien Secured Debt						100,227,725	94,417,112	
Preferred Equity—2.1%								
MidOcean JF Holdings Corp.	—	Distribution	—	—	153,922	15,392,188	13,124,124	
Superior Digital Displays Holdings, Inc.	—	Media	15.00 %	—	873,289	30,011,027	—	
Total Preferred Equity						45,403,215	13,124,124	
Common Equity—6.4%								
AKW Holdings Limited ^{(8), (10), (11)}	—	Healthcare, Education and Childcare	—	—	£950	132,497	1,560,804	
	—	Distribution	—	—	65,933	24,761,831	—	

MidOcean JF Holdings Corp.							
RAM Energy Holdings LLC	—	Energy and Utilities	—	—	84,747	76,264,739	39,145,623
Superior Digital Displays Holdings, Inc.	—	Media	—	—	11,100	2,211,000	—
Total Common Equity						103,370,067	40,706,427
Total Investments in Controlled, Affiliated Portfolio Companies						249,001,007	148,247,663
Total Investments—161.1%						1,131,299,887	1,024,744,836
Cash and Cash Equivalents—16.8%							
BlackRock Federal FD Institutional 30						48,111,205	48,111,205
BNY Mellon Cash Reserve and Cash						59,014,307	58,979,886
Total Cash and Cash Equivalents						107,125,512	107,091,091
Total Investments and Cash Equivalents—177.9%						\$1,238,425,399	\$1,131,835,927
Liabilities in Excess of Other Assets—(77.9%)							(495,743,243)
Net Assets—100.0%							\$636,092,684

- (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,” the Euro Interbank Offered Rate, or EURIBOR or “E,” or Prime rate, or “P.” The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 90-day or 180-day LIBOR rate (1M L, 3M L, or 6M L, respectively), and EURIBOR loans are typically indexed to a 90-day EURIBOR rate (3M E), at the borrower’s option. 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) 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.
- (8) Non-U.S. company or principal place of business outside the United States.
- (9) Investment is held through our Taxable Subsidiaries (See Note 1).
- (10) Par / Shares amount is denominated in British Pounds (£) as denoted.

- (11) 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. As of June 30, 2018, qualifying assets represent 87% of the Company's total assets and non-qualifying assets represent 13% of the Company's total assets.
- (12) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).
- (13) Share amount is 70,443,882,243.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2017

				Basis Point				
				Spread				
				Above				
	Maturity		Current		Par /			
Issuer Name	Expiration	Industry	Coupon	(4)	Index	Shares	Cost	Fair Value (3)
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—131.3% (2)								
First Lien Secured Debt—52.8%								
ACC of Tamarac, LLC	06/20/2022	Telecommunications	10.82 %	L+950	7,481,250	\$7,362,571	\$7,331,625	
Allied America, Inc.	08/08/2022	Business Services	8.32 %	L+700	19,950,000	19,557,525	19,551,000	
Allied America, Inc. (Revolver) (8)	08/08/2022	Business Services	—	—	2,000,000	—	—	
Bottom Line Systems, LLC	02/13/2023	Healthcare, Education and Childcare	8.83 %	L+750	19,850,000	19,573,919	19,773,923	
Broder Bros., Co., Tranche A	06/03/2021	Consumer Products	7.08 %	L+575	8,398,102	8,279,029	8,398,102	
Broder Bros., Co., Tranche B	06/03/2021	Consumer Products	13.58 %	L+1,225	8,723,735	8,593,867	8,723,735	
Cano Health, LLC	12/23/2022	Healthcare, Education and Childcare	9.74 %	L+850	23,538,688	22,997,008	23,538,687	
Cano Health, LLC (Revolver)	09/21/2018	Healthcare, Education and Childcare	9.74 %	L+850	540,000	540,000	540,000	
Cano Health, LLC (Revolver) (8)	09/21/2018	Healthcare, Education and Childcare	—	—	360,000	—	—	
DermaRite Industries LLC	03/03/2022	Manufacturing / Basic Industries	8.24 %	L+700	9,950,000	9,814,043	9,938,114	
eCommission Financial Services, Inc. (12)	08/29/2022	Financial Services	8.74 %	L+750	20,000,000	19,605,736	19,600,000	
eCommission Financial Services, Inc. (8), (12)	08/29/2022	Financial Services	—	—	4,000,000	—	(80,000)	
eCommission Financial Services,	08/29/2022	Financial Services	—	—	4,000,000	—	(80,000)	

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Inc. (Revolver) ⁽⁸⁾ , ⁽¹²⁾								
Hollander Sleep Products, LLC	06/09/2023	Consumer Products	9.30	%	L+800	22,443,750	22,010,693	22,219,312
Home Town Cable TV, LLC	06/20/2022	Telecommunications	10.82	%	L+950	10,000,000	9,806,795	9,800,000
Interior Specialists, Inc.	06/30/2020	Building Materials	9.25	%	L+800	24,470,390	24,323,542	24,470,390
Juniper Landscaping of Florida, LLC	12/22/2021	Personal, Food and Miscellaneous Services	10.74	%	L+950	14,083,875	13,836,409	14,083,875
K2 Pure Solutions NoCal, L.P.	02/19/2021	Chemicals, Plastics and Rubber	10.24	%	L+900	14,522,529	14,290,133	14,111,098
One Sixty Over Ninety, LLC	03/03/2022	Media	10.52	%	L+918	16,250,000	15,953,520	16,250,000
Prince Mineral Holding Corp. ⁽⁵⁾	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50	%	—	14,250,000	14,184,265	14,820,000
SFP Holding, Inc.	09/01/2022	Buildings and Real Estate	7.57	%	L+625	17,500,000	17,155,691	17,150,000
SFP Holding, Inc. ⁽⁸⁾	09/01/2022	Buildings and Real Estate	—		—	5,000,000	—	(100,000)
SFP Holding, Inc. (Revolver) ⁽⁸⁾	09/01/2022	Buildings and Real Estate	—		—	2,500,000	—	—
Sunborn Oy, Sunborn Saga Oy ^{(9), (11), (12)}	06/28/2019	Hotels, Motels, Inns and Gaming	11.50	%	L+1,050	€30,150,294	31,228,529	35,821,926
Triad Manufacturing, Inc.	12/28/2020	Manufacturing / Basic Industries	12.49	%	L+1,125	24,797,823	24,446,831	24,673,834
Trust Inns Limited ^{(9), (11), (12)}	02/12/2020	Buildings and Real Estate	10.83	%	L+1,050	£16,890,936	27,246,877	22,817,525
US Med Acquisition, Inc.	08/13/2021	Healthcare, Education and Childcare	10.33	%	L+900	8,564,063	8,564,063	8,135,859
Total First Lien Secured Debt							339,371,046	341,489,005
Second Lien Secured Debt—60.3%								
Acre Operating Company, LLC	12/12/2023	Electronics	10.74	%	L+950	38,800,000	38,164,636	39,576,000
Balboa Capital Corporation ⁽¹²⁾	03/04/2022	Financial Services	13.75	%	—	28,500,000	28,288,480	28,500,000
DecoPac, Inc.	03/31/2025	Beverage, Food and Tobacco	9.58	%	L+825	35,500,000	34,790,399	34,790,000
Howard Berger Co. LLC	09/30/2023	Distribution	11.34	%	L+1,000	42,937,500	41,491,290	41,220,000
			(PIK %)					
			5.18					
Infogroup, Inc.	04/03/2024	Other Media	10.58	%	L+925	20,400,000	20,011,940	19,992,000
Intermediate Transportation 100,	03/01/2019	Logistics Transport	11.00	%	—	432,203	334,401	432,203

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LLC ⁽⁵⁾							
			(PIK %)				
			11.00				
Lighthouse Network, LLC	10/11/2014	Financial Services	10.74 %	L+950	33,900,000	33,633,877	33,900,000
(f/k/a Harbortouch Payments, LLC)							
MailSouth, Inc.	10/22/2016	Printing and Publishing	11.80 %	L+1,050	26,425,000	26,004,601	26,689,250
Parq Holdings Limited Partnership ^{(9), (12)}	12/17/2011	Hotels, Motels, Inns and Gaming	13.24 %	L+1,200	76,500,000	76,500,000	83,295,634
Pre-Paid Legal Services, Inc.	07/01/2016	Personal, Food and Miscellaneous Services	10.25 %	L+900	62,750,000	62,291,419	62,985,313
Veritext Corp.	01/30/2013	Business Services	10.33 %	L+900	18,834,375	18,351,647	18,646,031
Total Second Lien Secured Debt Subordinated Debt/Corporate Notes—10.6%						379,862,690	390,026,431
Cascade Environmental LLC	08/20/2011	Environmental Services	12.00 %	—	32,675,553	32,158,389	31,940,353
Credit Infonet, Inc.	10/26/2010	Personal, Food and Miscellaneous Services	13.00 %	—	11,151,903	10,939,903	11,151,903
			(PIK 0.75 %)				
Goldsun Trading Limited ^{(9), (11), (12)}	02/19/2018	Healthcare, Education and Childcare	20.50 %	L+1,600	£9,112,485	13,280,807	12,225,783
			(PIK 12.00 %)				
Sonny's Enterprises, LLC	06/01/2012	Manufacturing / Basic Industries	11.00 %	—	13,300,000	13,055,456	13,300,000
Total Subordinated Debt/Corporate Notes Preferred Equity/Partnership Interests—0.9%						69,434,555	68,618,039
AH Holdings, Inc.	—	Healthcare, Education and Childcare	6.00 %	—	211	500,000	327,380
Alegeus Technologies Holdings Corp.	—	Financial Services	—	—	949	949,050	1,144,391
Convergent Technologies Holdings, LLC	—	Electronics	8.00 %	—	2,375	2,088,121	2,552,034
HW Holdco, LLC	—	Other Media	8.00 %	—	3,591	—	24,971
Roto Holdings, Inc.	—	Manufacturing / Basic Industries	9.00 %	—	1,197	1,197,000	1,537,236
Total Preferred Equity/Partnership Interests						4,734,171	5,586,012

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)

SEPTEMBER 30, 2017

				Basis Point			
				Spread			
				Above	Par /		
Issuer Name	Maturity / Expiration	Industry	Current Coupon	Index (4)	Shares	Cost	Fair Value (3)
Common Equity/Partnership Interests/Warrants—6.75%							
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare	—	—	753	\$—	\$—
Alegeus Technologies Holdings Corp.							
ASP LCG Holdings, Inc. (Warrants)	—	Financial Services	—	—	1	950	1,146
Autumn Games, LLC	05/05/2026	Education	—	—	933	586,975	1,752,663
Cardinal Logistics Holdings LLC (10)	—	Broadcasting and Entertainment	—	—	1,333,330	3,000,000	—
(Intermediate Transportation 100, LLC)	—	Cargo Transport	—	—	—	(14) 5,411,024	3,688,211
Cascade Environmental LLC (10)							
CI (Galls) Prime Investment Holdings, LLC (10)	—	Environmental Services	—	—	24,382	2,518,909	2,438,193
CI (Summit) Investment Holdings LLC	—	Distribution	—	—	1,745,639	1,745,639	3,928,695
Convergent Technologies Holdings, LLC	—	Buildings and Real Estate	—	—	100,000	1,000,000	1,000,000
	—	Electronics	—	—	2,375	—	4,612,054

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DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	3,449	3,448,658	3,448,658
eCommission Holding Corporation ⁽¹²⁾	—	Financial Services	—	—	80,000	800,000	800,000
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Building Materials	—	—	4,277	217,635	767,569
HW Holdco, LLC	—	Other Media	—	—	388,378	—	2,700,680
Infogroup Parent Holdings, Inc.	—	Other Media	—	—	181,495	2,040,000	1,934,243
ITC Rumba, LLC (Cano Health, LLC) ⁽¹⁰⁾	—	Healthcare, Education and Childcare	—	—	204,985	2,049,849	2,197,752
Kadmon Holdings, Inc. ⁽¹³⁾	—	Healthcare, Education and Childcare	—	—	252,014	2,265,639	844,247
LaMi Acquisition, LLC ⁽¹⁰⁾	—	Distribution	—	—	19	493,280	803,665
Lariat ecoserv Co-Invest Holdings, LLC ⁽¹⁰⁾	—	Environmental Services	—	—	1,000,000	1,000,000	—
MidOcean PPL Holdings, Corp.	—	Personal, Food and Miscellaneous Services	—	—	3,000	3,000,000	9,786,996
(Pre-Paid Legal Services, Inc.)							
Patriot National, Inc. ⁽¹³⁾	—	Insurance	—	—	100,885	238,038	136,195
Roto Holdings, Inc.	—	Manufacturing / Basic Industries	—	—	1,330	133,000	2,036,830
ZS Juniper L.P.							
(Juniper Landscaping of Florida, LLC) ⁽¹⁰⁾	—	Personal, Food and Miscellaneous Services	—	—	754	754,264	754,264
Total Common Equity/Partnership Interests/Warrants						30,703,860	43,632,061
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						824,106,322	849,351,548
Investments in Non-Controlled, Affiliated Portfolio Companies—29.3%, ⁽²⁾							
First Lien Secured Debt—9.8%							
American Gilsonite Company	12/31/2024	Diversified Natural Resources, Precious Metals and Minerals	15.00 % (PIK 5.00 %)	—	3,257,511	3,168,502	3,583,262
Corfin Industries LLC	11/25/2026	Aerospace and Defense	10.99 % L+975	22,593,352	22,280,645	22,480,385	
Corfin Industries LLC (Revolver) ⁽⁸⁾	11/25/2026	Aerospace and Defense	—	—	1,942,623	—	—

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TRAK Acquisition Corp.	04/30/2018	Business Services	12.00	%	L+1,050	21,202,411	21,136,798	21,202,411
TRAK Acquisition Corp. (Revolver)	04/30/2018	Business Services	12.00	%	L+1,050	5,000,000	5,000,000	5,000,000
U.S. Well Services, LLC	02/02/2021	Oil and Gas	12.24	%	L+1,100	9,644,284	9,566,510	9,644,284
			(PIK 12.24	%)				
U.S. Well Services, LLC (Revolver)	02/02/2021	Oil and Gas	7.24	%	L+600	1,478,151	1,478,151	1,478,151
U.S. Well Services, LLC (Revolver) ⁽⁸⁾	02/02/2021	Oil and Gas	—		—	714,270	—	—
Total First Lien Secured Debt							62,630,606	63,388,493
Second Lien Secured Debt—1.5%								
EnviroSolutions Real Property Holdings, Inc. -	12/23/2016	Environmental Services	9.34	%	L+800	4,856,640	4,834,021	4,856,640
Tranche A								
EnviroSolutions Real Property Holdings, Inc. -	08/03/2020	Environmental Services	9.34	%	L+800	4,661,312	4,639,603	4,661,312
Tranche B								
			(PIK 9.34	%)				
Total Second Lien Secured Debt							9,473,624	9,517,952
Subordinated Debt/Corporate Notes—8.0%								
American Gilsonite Company ⁽⁵⁾	12/31/2014	Diversified Natural Resources, Precious Metals and Minerals	17.00	%	—	9,727,948	9,727,948	10,603,464
			(PIK 17.00	%)				
ETX Energy, LLC, Convertible Note ⁽⁵⁾	05/03/2021	Oil and Gas	12.50	%	—	28,611,214	37,434,384	41,486,260
			(PIK 12.50	%)				
Total Subordinated Debt/Corporate Notes							47,162,332	52,089,724
Common Equity/Partnership Interests/Warrants—10.0%								
Affinion Group Holdings, Inc.	—	Consumer Products	—		—	859,496	30,503,493	19,648,795
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Products	—		—	37,181	10,265,972	55,344
American Gilsonite Company	—	Diversified Natural Resources, Precious Metals and Minerals	—		—	25,400	5,465,627	8,620,806
Corfin InvestCo, L.P.	—	Aerospace and Defense	—		—	11,250	1,125,000	1,609,091

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Corfin InvestCo, L.P. ⁽⁸⁾	—	Aerospace and Defense	—	—	11,250	—	—
EnviroSolutions Holdings, Inc.	—	Environmental Services	—	—	143,668	11,960,702	15,718,184
ETX Energy, LLC ⁽¹⁰⁾	—	Oil and Gas	—	—	113,610	—	2,797,423
ETX Energy Management Company, LLC ⁽¹⁰⁾	—	Oil and Gas	—	—	119,603	—	147,249
TRAK Acquisition Corp.	—	Business Services	—	—	491,755	188,837	5,972,967
USWS Holdings, LLC - Class A and Class B	—	Oil and Gas	—	—	8,190,817	7,023,750	10,108,949
Total Common Equity/Partnership Interests/Warrants						66,533,381	64,678,808
Total Investments in Non-Controlled, Affiliated Portfolio Companies						185,799,943	189,674,977
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS							

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)

SEPTEMBER 30, 2017

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point		Par / Shares	Cost	Fair Value ⁽³⁾
				Spread				
				Above				
				Index (4)				
Investments in Controlled, Affiliated Portfolio Companies—17.8% ⁽²⁾								
First Lien Secured Debt—9.5%								
RAM Energy Holdings LLC	07/01/2022	Energy and Utilities	8.00 (PIK 4.00)	% (%)	—	35,000,000	\$35,000,000	\$35,000,000
Superior Digital Displays, LLC	12/31/2022	Media	10.30 (PIK 10.30)	% (%)	L+900	29,386,130	28,233,485	26,198,854
Total First Lien Secured Debt							63,233,485	61,198,854
Preferred Equity—2.5% ⁽²⁾								
MidOcean JF Holdings Corp.	—	Distribution	—		—	143,183	14,318,325	16,117,208
Superior Digital Displays Holdings, Inc.	—	Media	15.00	%	—	516,204	19,331,027	—
Total Preferred Equity							33,649,352	16,117,208
Common Equity—5.8% ⁽²⁾								
MidOcean JF Holdings Corp.	—	Distribution	—		—	65,933	24,761,831	828,349
RAM Energy Holdings LLC	—	Energy and Utilities	—		—	84,747	76,264,739	36,406,572
Superior Digital Displays Holdings, Inc.	—	Media	—		—	11,100	2,211,000	—
Total Common Equity							103,237,570	37,234,921
Total Investments in Controlled, Affiliated Portfolio Companies							200,120,407	114,550,983
Total Investments—178.4%							1,210,026,672	1,153,577,508

Cash and Cash Equivalents—5.9%		
BlackRock Federal		
FD Institutional 30	20,490,740	20,490,740
BNY Mellon Cash		
Reserve and Cash	17,691,633	17,711,328
Total Cash and Cash Equivalents	38,182,373	38,202,068
Total Investments and Cash		
Equivalents—184.3%	\$1,248,209,045	\$1,191,779,576
Liabilities in Excess of Other Assets—(84.3%)		(544,971,105)
Net Assets—100.0%		\$646,808,471

- (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 not subject to a LIBOR or Prime rate floor.
- (8) 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.
- (9) Non-U.S. company or principal place of business outside the United States.
- (10) Investment is held through our Taxable Subsidiaries (See Note 1).
- (11) Par amount is denominated in British Pounds (£) or in Euros (€) as denoted.
- (12) 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. As of September 30, 2017, qualifying assets represent 83% of the Company’s total assets and non-qualifying assets represent 17% of the Company’s total assets.
- (13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).
- (14) Share amount is 70,443,882,243.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

(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 while seeking to preserve capital through debt and equity investments. We invest primarily in U.S. middle-market companies in the form of first lien secured debt, second lien secured debt and subordinated debt and, to a lesser extent, equity investments. On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol "PNNT."

We 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. 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. 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 Administrator, also provides similar services to each of our SBIC Funds under a separate administration agreement. See Note 3.

Our wholly owned subsidiaries, SBIC I and SBIC II, were organized as Delaware limited partnerships in 2010 and 2012, respectively. SBIC I 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 selection criteria used by PennantPark Investment.

We have formed and expect to continue to form certain Taxable Subsidiaries, which are subject to tax as corporations. These Taxable Subsidiaries allow us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while facilitating our ability to qualify as a RIC under the Code.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the Financial Accounting Standards Board, or FASB, 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 Topic 946, Financial Services – Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and Articles 6, 10 and 12 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 assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

JUNE 30, 2018

(Unaudited)

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, as applicable, the change in the fair values of our portfolio investments, our Credit Facility, the 2019 Notes and, prior to their redemption, the 2025 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. 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. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

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 treated as a RIC for federal income tax purposes. In this regard, we account for income taxes using the asset and liability method prescribed by ASC Topic 740, Income Taxes, or ASC 740. 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 treated as a RIC, we do not anticipate incurring any material federal income taxes. However, we may choose to retain a portion of our calendar year income, which may result in the imposition of an excise tax. Additionally, certain of the Company's consolidated subsidiaries are subject to U.S. federal and state income taxes. For both the three and nine months ended June 30, 2018, we did not record a provision for taxes. For the three and nine months ended June 30, 2017, we recorded a provision for taxes of \$0.4 million (\$0.1 million of excise tax and \$0.3 million of U.S. federal and state income taxes related to Taxable Subsidiaries) and \$1.3 million (\$0.4 million of excise tax and \$0.9 million of U.S. federal and state income taxes related to Taxable Subsidiaries), respectively.

We recognize the effect of a tax position in our Consolidated Financial Statements in accordance with ASC 740 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. Tax positions not considered to satisfy the "more-likely-than-not" threshold would be recorded as a tax expense or benefit. Penalties or interest, if applicable, that may be assessed relating to income taxes would be classified as other operating expenses in the financial statements. As of June 30, 2018, there were no tax accruals relating to uncertain tax positions and no amounts accrued for any related interest or penalties with respect to the periods presented herein. The Company's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although the Company files both federal and state income tax returns, the Company's major tax jurisdiction is federal.

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.

(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 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. The tax attributes for distributions will generally include ordinary income and capital gains, but may also include certain tax-qualified dividends and/or a 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.

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

JUNE 30, 2018

(Unaudited)

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.

(f) Consolidation

As permitted under Regulation S-X and as explained by ASC paragraph 946-810-45-3, 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.

(g) Recent Accounting Pronouncements

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. An amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017. Public business entities are permitted to apply this guidance early, but not before the original effective date (i.e., interim periods within annual periods beginning after December 15, 2016). The Company has evaluated this guidance and determined it will not have a material impact on its financial statements.

3. AGREEMENTS AND RELATED PARTY TRANSACTIONS

Under the Investment Management Agreement, as amended and restated on February 6, 2018, we implemented the previously announced permanent reductions in base management and incentive fees, effective January 1, 2018. 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 2018. 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, Management Fees.

Effective January 1, 2018, the base management fee is calculated at an annual rate of 1.50% 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 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 periods prior to January 1, 2018, the base management fee was calculated at an annual rate of 2.00% of our “average adjusted gross assets.” From December 31, 2015 through December 31, 2017, the Investment Adviser voluntarily agreed, in consultation with the board of directors, to irrevocably 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, 2018, the Investment Adviser earned a base management fee of \$3.8 million and \$12.5 million (after a waiver of \$0.9 million), respectively, from us. For the three and nine months ended June 30, 2017, the Investment Adviser earned a base management fee of \$4.9 million (after a waiver of \$0.9 million) and \$15.5 million (after a waiver of \$3.0 million), respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense 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). Effective January 1, 2018, 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 2.1212% in any calendar quarter (8.4848% annualized), and (3) 17.5% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1212% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For periods prior to January 1, 2018, we paid 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 Inve