

PENNANTPARK INVESTMENT CORP  
Form 10-Q  
August 05, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015**

**OR**

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

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

**COMMISSION FILE NUMBER: 814-00736**

**PENNANTPARK INVESTMENT CORPORATION**

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

**MARYLAND**

**20-8250744**

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

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

**590 Madison Avenue,**

**15<sup>th</sup> Floor, New York, N.Y.**  
**(Address of principal executive offices)**

**10022**  
**(Zip Code)**

**(212) 905-1000**

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

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

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

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

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

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of August 5, 2015 was 74,259,698.

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**PENNANTPARK INVESTMENT CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2015**

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**PART I CONSOLIDATED FINANCIAL INFORMATION**

We are filing this Form 10-Q, or the Report, in compliance with Rule 13a-13 promulgated by the Securities and Exchange Commission, or the SEC. In this Report, Company, we, our or us refer to PennantPark Investment Corporation and its consolidated subsidiaries unless the context suggests otherwise. PennantPark Investment refers to only PennantPark Investment Corporation; our SBIC Funds refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC LP, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC; SBA refers to the Small Business Administration; SBIC refers to a Small Business Investment Company under the Small Business Investment Act of 1958, as amended, or the 1958 Act ; Credit Facility refers to our multi-currency, senior secured revolving credit facility, as amended and restated; 2025 Notes refers to our 6.25% senior notes due 2025; 2019 Notes refers to our 4.50% notes due 2019; our Notes refers collectively to our 2025 Notes and our 2019 Notes; BDC refers to a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act ; Code refers to the Internal Revenue Code of 1986, as amended; and RIC refers to a regulated investment company under the Code. References to our portfolio or investments include investments we make through our SBIC Funds and other consolidated subsidiaries.

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

	<b>June 30, 2015</b> <b>(unaudited)</b>	<b>September 30, 2014</b>
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost \$1,097,132,390 and \$1,171,573,359, respectively)	\$ 1,066,250,974	\$ 1,212,515,400
Non-controlled, affiliated investments (cost \$227,700,622 and \$108,572,406, respectively)	177,468,538	67,847,521
Controlled, affiliated investments (cost \$78,155,160 and \$38,708,555, respectively)	50,326,631	37,691,845
Total of investments (cost \$1,402,988,172 and \$1,318,854,320, respectively)	1,294,046,143	1,318,054,766
Cash and cash equivalents (cost \$83,378,632 and \$66,600,195, respectively)	83,328,972	66,518,682
Interest receivable	13,851,364	13,703,525
Deferred financing costs and other assets	13,658,761	13,550,224
<b>Total assets</b>	<b>1,404,885,240</b>	<b>1,411,827,197</b>
<b>Liabilities</b>		
Distributions payable	20,792,715	21,026,015
Payable for investments purchased	47,623,030	4,432,500
Unfunded investments		15,607,059
Credit Facility payable (cost \$101,536,700 and \$55,226,300, respectively) (See Notes 5 and 10)	98,565,960	53,497,620
2019 Notes payable (cost \$250,000,000) (See Notes 5 and 10)	250,160,000	251,350,250
SBA debentures payable (cost \$150,000,000) (See Notes 5 and 10)	150,000,000	150,000,000
2025 Notes payable (cost \$71,250,000) (See Notes 5 and 10)	71,934,000	71,820,000
Management fee payable (See Note 3)	6,497,137	6,385,103
Performance-based incentive fee payable (See Note 3)	5,163,582	4,622,754
Interest payable on debt	6,200,201	1,962,264
Accrued other expenses	2,405,438	3,113,683
<b>Total liabilities</b>	<b>659,342,063</b>	<b>583,817,248</b>
Commitments and contingencies (See Note 11)		
<b>Net assets</b>		
Common stock, 74,259,698 and 75,092,911 shares issued and outstanding, respectively.		
Par value \$0.001 per share and 100,000,000 shares authorized.	74,260	75,093

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Paid-in capital in excess of par value	844,475,225	852,465,375
Distributions in excess of net investment income	(12,420,260)	(11,802,580)
Accumulated net realized gain (loss) on investments	20,281,626	(11,655,302)
Net unrealized depreciation on investments	(108,994,414)	(881,067)
Net unrealized depreciation (appreciation) on debt	2,126,740	(191,570)
<b>Total net assets</b>	<b>\$ 745,543,177</b>	<b>\$ 828,009,949</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,404,885,240</b>	<b>\$ 1,411,827,197</b>
<b>Net asset value per share</b>	<b>\$ 10.04</b>	<b>\$ 11.03</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Three Months Ended</b>		<b>Nine Months Ended June 30,</b>	
	<b>June 30,</b>		<b>2015</b>	<b>2014</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Investment income:</b>				
From non-controlled, non-affiliated investments:				
Interest	\$ 31,722,226	\$ 29,949,064	\$ 101,811,852	\$ 90,772,466
Other income	3,138,382	1,463,884	9,535,685	6,314,911
From non-controlled, affiliated investments:				
Interest	4,263,709	1,456,621	7,000,896	4,174,234
Other income	159,437		159,437	
From controlled, affiliated investments:				
Interest	1,357,778	2,447,354	3,998,887	6,071,987
Other income		158,333		459,166
<b>Total investment income</b>	<b>40,641,532</b>	<b>35,475,256</b>	<b>122,506,757</b>	<b>107,792,764</b>
<b>Expenses:</b>				
Base management fee (See Note 3)	6,497,136	6,131,963	20,093,624	17,906,316
Performance-based incentive fee (See Note 3)	5,163,582	5,370,391	15,556,767	14,866,434
Interest and expenses on debt (See Note 10)	6,616,779	5,034,567	19,699,606	14,707,313
Administrative services expenses (See Note 3)	855,313	930,809	2,562,033	2,771,359
Other general and administrative expenses	854,397	929,254	2,367,661	2,470,350
<b>Expenses before taxes and debt issuance costs</b>	<b>19,987,207</b>	<b>18,396,984</b>	<b>60,279,691</b>	<b>52,721,772</b>
Tax expense		32,000		40,548
Debt issuance costs (See Note 5)		3,850,000		3,850,000
<b>Total expenses</b>	<b>19,987,207</b>	<b>22,278,984</b>	<b>60,279,691</b>	<b>56,612,320</b>
<b>Net investment income</b>	<b>20,654,325</b>	<b>13,196,272</b>	<b>62,227,066</b>	<b>51,180,444</b>
<b>Realized and unrealized (loss) gain on investments and debt:</b>				
Net realized gain on investments	13,820,350	23,267,131	31,936,928	28,955,815
Net change in unrealized (depreciation) appreciation on:				
Non-controlled, non-affiliated investments	(24,919,481)	(8,997,766)	(102,855,290)	21,000,422
Controlled and non-controlled, affiliated investments	(5,260,674)	7,860,989	(5,258,057)	16,369,826
	641,430	(3,377,315)	2,318,310	(5,421,092)

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

<b>Net change in unrealized (depreciation) appreciation on investments and debt</b>	(29,538,725)	(4,514,092)	(105,795,037)	31,949,156
<b>Net realized and unrealized (loss) gain from investments and debt</b>	(15,718,375)	18,753,039	(73,858,109)	60,904,971
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ 4,935,950	\$ 31,949,311	\$ (11,631,043)	\$ 112,085,415
Net increase (decrease) in net assets resulting from operations per common share (See Note 7)	\$ 0.07	\$ 0.48	\$ (0.16)	\$ 1.68
Net investment income per common share	\$ 0.28	\$ 0.20	\$ 0.83	\$ 0.77

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>2015</b>	<b>2014</b>
<b>Net increase in net assets from operations:</b>		
Net investment income	\$ 62,227,066	\$ 51,180,444
Net realized gain on investments	31,936,928	28,955,815
Net change in unrealized (depreciation) appreciation on investments	(108,113,347)	37,370,248
Net change in debt depreciation (appreciation)	2,318,310	(5,421,092)
<b>Net (decrease) increase in net assets resulting from operations</b>	<b>(11,631,043)</b>	<b>112,085,415</b>
<b>Distributions to stockholders</b>	<b>(62,844,746)</b>	<b>(55,911,746)</b>
<b>Capital transactions:</b>		
Repurchase of common stock	(7,990,983)	
Reinvestment of distributions		792,925
<b>Net (decrease) increase in net assets resulting from capital transactions</b>	<b>(7,990,983)</b>	<b>792,925</b>
<b>Net (decrease) increase in net assets</b>	<b>(82,466,772)</b>	<b>56,966,594</b>
<b>Net assets:</b>		
Beginning of period	828,009,949	697,506,199
End of period	\$ 745,543,177	\$ 754,472,793
Distributions in excess of net investment income, at end of period	\$ (12,420,260)	\$ (9,406,519)
<b>Capital share activity:</b>		
Shares of common stock repurchased	(833,213)	
Shares issued from reinvestment of distributions		69,709

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net (decrease) increase in net assets resulting from operations	\$ (11,631,043)	\$ 112,085,415
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash provided (used) by operating activities:		
Net change in net unrealized depreciation (appreciation) on investments	108,113,347	(37,370,248)
Net change in unrealized (depreciation) appreciation on debt	(2,318,310)	5,421,092
Net realized gain on investments	(31,936,928)	(28,955,815)
Net accretion of discount and amortization of premium	(4,937,779)	(6,629,854)
Purchases of investments	(344,808,702)	(561,839,426)
Payment-in-kind income	(7,693,992)	(6,530,685)
Proceeds from dispositions of investments	289,545,505	534,400,443
Increase in interest receivable	(147,839)	(3,105,665)
Increase in deferred financing costs and other assets	(108,537)	(6,809,887)
Increase (decrease) in payable for investments purchased at cost	43,190,530	(52,544,704)
Increase in interest payable on debt	4,237,937	1,223,182
Increase in management fee payable	112,034	712,406
Increase in performance-based incentive fee payable	540,828	1,095,510
(Decrease) increase in accrued other expenses	(708,245)	400,618
Net cash provided (used) by operating activities	41,448,806	(48,447,618)
<b>Cash flows from financing activities:</b>		
Repurchase of common stock (See Note 12)	(7,990,983)	
Deferred financing costs		(750,000)
Distributions paid to stockholders	(63,078,045)	(55,099,303)
Borrowings under Credit Facility (See Note 10)	467,000,000	906,253,100
Repayments under Credit Facility (See Note 10)	(420,689,600)	(795,854,400)
Net cash (used) provided by financing activities	(24,758,628)	54,549,397
<b>Net increase in cash equivalents</b>	<b>16,690,178</b>	<b>6,101,779</b>
Effect of exchange rate changes on cash	120,112	(151,821)
<b>Cash and cash equivalents, beginning of period</b>	<b>66,518,682</b>	<b>58,440,829</b>

<b>Cash and cash equivalents, end of period</b>	\$ 83,328,972	\$ 64,390,787
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 15,048,316	\$ 13,239,662
Taxes paid	\$ 60,808	\$ 8,166
Distributions reinvested	\$	\$ 792,925
Conversions and non-cash exchanges	\$ 19,765,183	\$ 59,126,053

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2015

(Unaudited)

Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>							
<b>Lien Secured Debt</b>			<b>32.8%</b>				
Business on es LLC	03/21/2018	Communications	11.25%	L+975	22,842,397	\$ 22,210,159	\$ 23,641
Diversified gs, Inc.	04/02/2018	Retail	11.95%	L+1,175 <sup>(8)</sup>	37,460,272	36,835,688	38,369
Diversified gs, Inc. <sup>(9)</sup>	04/02/2018	Retail			7,572,032		183
Diversified gs, Inc. lver) <sup>(9)</sup>	04/02/2018	Retail			4,371,469		106
aming I,	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825	20,133,275	19,852,796	20,007
nder Sleep cts, LLC	10/21/2020	Consumer Products	9.00%	L+800	4,488,750	4,428,067	4,488
or lists, Inc.	06/30/2020	Building Materials	9.00%	L+800	25,500,000	25,245,063	25,245
on Hewitt ervice Inc.	10/16/2017	Personal, Food and Miscellaneous Services	10.00%	L+850	7,084,822	7,084,802	7,049
re ons NoCal,	08/19/2019	Chemicals, Plastics and Rubber	11.00%	L+1,000	21,783,793	21,455,510	20,565
USA GP nc Energy ce (USA), )	10/31/2017	Oil and Gas	9.63%		5,626,850	5,626,850	5,064
Mineral ng Corp. <sup>(5)</sup>	12/16/2019	Mining, Steel, Iron and Non- Precious Metals	11.50%		14,250,000	14,132,799	13,110
shaw US ng Corp.	06/18/2019	Electronics	9.00%	L+750	13,583,020	13,481,049	13,601
shaw US ng Corp. lver)	06/18/2019	Electronics	9.00%	L+750	317,647	317,647	318

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stshaw US ng Corp. lver) <sup>(9)</sup>	06/18/2019	Electronics			2,329,411		3
Defense ons, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	19,776,567	19,017,664	17,798
Inns ed <sup>(10), (12),</sup>	02/12/2020	Buildings and Real Estate	11.08%	L+1,050 <sup>(8)</sup>	24,884,965	39,491,803	39,070
Well es, LLC	05/02/2019	Oil and Gas	12.00%	L+1,150	15,609,501	15,329,605	15,595
<b>First Lien ed Debt</b>						244,509,502	244,218
<b>nd Lien ed 81.1%</b>							
on Group,	10/31/2018	Consumer Products	8.50%	L+700	15,300,000	14,007,150	13,750
can ite any <sup>(5)</sup>	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	22,796
us, Inc.	12/02/2020	Financial Services	9.00%	L+800	15,500,000	15,313,198	15,471
a Capital ration	03/04/2022	Financial Services	13.00%		9,500,000	9,314,299	9,405
a Capital ration <sup>(9)</sup>	09/04/2016	Financial Services			9,500,000		
Oil & LLC	11/01/2018	Oil and Gas	12.25%	L+1,100	26,265,857	24,849,707	20,093
			(PIK 2.50%)				
ation ng ials, LLC	04/30/2019	Building Materials	12.00%	L+1,100	45,000,000	44,618,018	45,346
ation ng ials, LLC	04/30/2019	Building Materials	13.00%	L+1,200	33,025,394	32,481,464	33,355
			(PIK 1.00%)				
rd Berger LLC	09/30/2020	Distribution	11.00%	L+1,000	41,250,000	39,009,942	40,837
mediate ortation LLC <sup>(5)</sup>	03/01/2017	Cargo Transport	<sup>(6)</sup>		4,162,484	4,162,486	1,165
cosmetics ngs, Inc.	07/31/2019	Consumer Products	11.00%	L+1,000	34,000,000	33,450,435	34,277
s ainment,	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175	48,765,129	48,274,438	48,765
Custom cts Inc.	10/29/2019	Consumer Products	9.50%	L+825	9,500,000	9,378,418	9,500
age Line,	12/20/2016	Personal, Food and Miscellaneous Services	10.50%	L+875	41,812,500	41,527,711	41,603
	10/31/2017	Oil and Gas	12.50% <sup>(7)</sup>		11,875,000	11,649,448	10,271

USA GP Inc Energy ce (USA), )								
Gulf rces, LLC	05/15/2019	Oil and Gas	11.75%		45,000,000	44,677,842	37,800	
ex sition, LLC	07/07/2021	Business Services	11.75%	L+1,050	41,250,000	40,867,704	40,425	
Holdings ed rship <sup>(10)</sup> ,	12/17/2021	Hotels, Motels, Inns and Gaming	13.00%	L+1,200	75,000,000	75,000,000	75,323	
n Media,	10/02/2020	Media	9.00%	L+775	19,698,091	19,473,273	19,698	
id Legal es, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	10.25%	L+900	56,750,000	56,080,774	56,395	
Security es wer, LLC	07/01/2022	Personal, Food and Miscellaneous Services	9.75%	L+875	28,500,000	28,072,500	28,072	
<b>Second Secured</b>						617,608,807	604,354	
<b>Ordinated Corporate 20.6%</b>								
on Group ngs, Inc.	09/14/2018	Consumer Products	14.50%		38,591,964	34,708,706	21,225	
on ments LLC	08/15/2018	Consumer Products	13.50%	(PIK 14.50%)	15,096,000	15,096,000	6,642	
us ologies,	02/15/2019	Financial Services	12.00%		8,930,000	8,810,714	8,911	
iated ials, LLC	11/01/2017	Building Materials	9.13%		2,850,000	2,505,283	2,365	
de LP ngs, LLC	08/20/2021	Environmental Services	12.00%		23,600,000	23,096,295	23,364	
de LP ngs, LLC	02/20/2017	Environmental Services			15,000,000		187	
Infonet,	10/26/2018	Personal, Food and Miscellaneous Services	13.00%		10,752,918	10,607,668	10,781	
y & ration rs, Inc. <sup>(5)</sup>	07/01/2019	Oil and Gas	8.00%	(PIK 1.75%)	8,550,000	8,550,000	2,180	
rk, Inc.	06/15/2017	Printing and Publishing	14.50% <sup>(7)</sup>		15,000,000	14,818,644	15,000	
	11/15/2019	Oil and Gas	12.00%		15,204,289	14,810,660	7,602	

(PIK 12.00%)

Gulf  
Resources, LLC

Ill-Reilly,	04/15/2019	Other Media	12.50% <sup>(7)</sup>	42,275,000	41,581,843	42,341
Holdings,	05/13/2021	Manufacturing / Basic Industries	11.00%	13,300,000	13,054,908	13,167
					187,640,721	153,768
<b>Consolidated Corporate</b>						

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

JUNE 30, 2015

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Preferred Equity/Partnership Interests 2.0%<sup>(6)</sup></b>							
... Holdings,		Healthcare, Education and Childcare	6.00%		211	\$ 500,000	\$ 252,200
... egeus ... hologies ... dings Corp.		Financial Services			949	949,050	976,420
... egeus ... hologies, ... C)							
... (IHS) ... estment ... dings, LLC		Healthcare, Education and Childcare	8.00%		76,357	765,307	3,538,690
... (IHS) ... estment ... dings, LLC		Healthcare, Education and Childcare			38,179		
... nvergent ... hologies ... dings, LLC		Electronics	8.00%		2,375	2,088,121	2,177,500
... V Holdco, ... C		Other Media	8.00%		3,591		24,170
... A. Cosmetics ... , Inc.		Consumer Products	8.00%		3,397	3,397,484	3,800,450
... A. Cosmetics ... dings, Inc.)							
... de Holdings,		Personal Transportation	8.00%		1,966,667	2,102,669	3,112,960
... to Holdings,		Manufacturing / Basic Industries			1,197	1,197,000	1,266,880
<b>Total Preferred Equity/Partnership Interests</b>						<b>10,999,631</b>	<b>15,149,310</b>
<b>Common Equity/Partnership Interests/Warrants 6.5%<sup>(6)</sup></b>							
		Retail			1,736	445,500	2,581,030



Z Wireless Holdings, Inc. (a Z Wireless Holdings, Inc.)					
Finion Group Holdings, Inc., Series A (Warrants)	12/12/2023	Consumer Products	4,798,624	10,265,972	2,279,34
Finion Group Holdings, Inc., Series B (Warrants)	12/12/2023	Consumer Products	9,822,196		196,44
HI Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare	753		
Gegeus Technologies Holding Corp. (Gegeus Technologies, Inc.)		Financial Services	1	950	97
MP LCG Holdings, Inc. (Warrants)	05/05/2026	Education	933	586,975	762,40
Autumn Times, LLC		Broadcasting and Entertainment	1,333,330	3,000,000	
Cardinal Logistics Holdings LLC		Cargo Transport	137,923	2,111,588	
Intermediate Transportation Co., L.L.C.)					
Escade LP Holdings, LLC		Environmental Services	23,600	2,360,000	2,659,50
(FBM) Holdings, LLC		Building Materials	207,242	2,250,000	3,274,27
Foundation Building Materials, Inc. (C)					
(FBM) Holdings, LLC (11)		Building Materials	103,621		
Foundation Building Materials, Inc. (C)					
		Distribution	1,505,000	1,505,000	1,891,48

(Galls) me vestment ldings, LLC					
(IHS) vestment ldings, LLC		Healthcare, Education and Childcare	23,416	234,693	1,085,25
(IHS) vestment ldings, LLC		Healthcare, Education and Childcare	11,708		
onvergint chnologies ldings, LLC		Electronics	2,375		1,085,11
raday ldings, LLC		Building Materials	3,520	171,601	171,60
terior pecialists, (.) V Holdco, C		Other Media	388,378		2,312,69
A. Cosmetics , Inc. (J.A. smetics ldings, Inc.)		Consumer Products	252	2,516	1,012,26
dmon ldings, LLC, ass A		Healthcare, Education and Childcare	1,079,920	1,236,832	7,076,53
dmon ldings, LLC, ass D		Healthcare, Education and Childcare	1,079,920	1,028,807	971,04
riat ecoserv -Invest ldings, LLC		Environmental Services	1,000,000	1,000,000	795,92
ngnum nter sources rporation arrants) <sup>(13)</sup>	04/16/2016	Oil and Gas	122,192	182,498	1,22
dOcean PPL ldings, rp. (Pre-Paid gal ervices, Inc.)		Personal, Food and  Miscellaneous  Services	3,000	3,000,000	5,146,58
w Gulf sources, C arrants) <sup>(11)</sup>	05/09/2024	Oil and Gas	13,500	495,000	
	11/27/2023	Insurance	123,129	238,049	1,641,31

Patriot Investment, Inc. (Warrants)					
Power Products Holdings, LLC, Class A Units	Electronics	1,350,000	970,563	1,122,380	
Power Products Holdings, LLC, Class B Units	Electronics	150,000	150,000	1,471,390	
De Group Parent, Inc.	Personal Transportation	1,870,331	148,998	148,998	
De Holdings, Inc.	Personal Transportation	9,882	11,314		
to Holdings, Inc.	Manufacturing / Basic Industries	1,330	133,000	371,190	
stcom Parent Holdings, Inc.	Printing and Publishing	211,797	793,873	3,406,810	
Text Holdings, Inc.	Business Services	35,526	4,050,000	7,293,790	
<b>Total Common Equity/Partnership Interests/Warrants</b>			<b>36,373,729</b>	<b>48,759,580</b>	
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>			<b>1,097,132,390</b>	<b>1,066,250,970</b>	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Maturity / Expiration</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par / Shares</b>	<b>Co</b>
<b>Controlled, Affiliated Portfolio Companies</b>	<b>23.8%</b> <sup>(1), (2)</sup>					
<b>14.1%</b>						
...e A	07/18/2019	Energy and Utilities	12.00%	L+1,000	75,000,000	\$ 73,6
...e B	07/20/2015	Energy and Utilities	15.00%	L+1,300	20,000,000	19,9
	04/30/2018	Business Services	12.00%	L+1,050	23,514,911	23,2
<b>Debt</b>						116,8
<b>at 1.2%</b>						
...erty Holdings, Inc.	12/26/2017	Environmental Services	9.00%	L+800	9,409,740	9,2
<b>Corporate Notes 4.7%</b>						
	11/05/2019	Consumer Products	<sup>(6)</sup>		12,710,748	12,7
	10/02/2017	Auto Sector	12.50%		28,000,000	27,6
<b>Corporate Notes</b>						40,3
...s, Inc.		Aerospace and Defense			53,071	20,0
<b>Partnership Interests/Warrants 3.1%</b> <sup>(6)</sup>						
		Consumer Products			104,719	21,4
...Warrants)	11/05/2022	Consumer Products			15,486	
...Inc.		Environmental Services			143,668	11,9
...erty Holdings, Inc.)		Leisure, Amusement, Motion Pictures			375,000	3,7
...ngs, Inc.		and Entertainment Auto Sector			16,800	2,7
...s, Inc.		Aerospace and Defense			53,071	2
		Energy and Utilities			1,891	8

		Business Services			491,755	1
<b>Partnership Interests/Warrants</b>						
						41,1
<b>Controlled, Affiliated Portfolio Companies</b>						
						227,7
<b>Controlled, Affiliated Portfolio Companies 6.8%<sup>(1), (2)</sup></b>						
<b>4.4%</b>						
LLC	12/31/2018	Media	14.00%	L+1,300	22,259,043	20,0
			(PIK 14.00%)			
	06/30/2020	Business Services	14.00% <sup>(7)</sup>		10,050,000	10,0
<b>Debt</b>						
						30,0
<b>Debt (0.2)%</b>						
LLC	07/01/2019	Media	16.00%	L+1,500	2,633,578	2,6
			(PIK 16.00%)			
LLC <sup>(9)</sup>	07/01/2019	Media			1,775,000	
<b>Debt</b>						
						2,6
<b>Corporate Notes 0.3%</b>						
	6/30/2020	Business Services	14.00% <sup>(7)</sup>		2,450,000	2,4
		Media	15.00%		37,046	5,0
		Business Services	14.00%		11,000	11,0
						16,0
		Distribution			65,933	24,7
		Media			11,100	2,2
		Business Services			100	
						26,9
<b>Controlled, Affiliated Portfolio Companies</b>						
						78,1
						1,402,9
<b>Debt 11.2%</b>						
						3,3
						80,0
<b>Equivalents</b>						
						83,3

sh Equivalents 184.8%

\$ 1,486,3

her Assets (84.8%)

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**JUNE 30, 2015**

**(Unaudited)**

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

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2014

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>				<b>146.4%</b> <sup>(1), (2)</sup>			
<b>First Lien Secured Debt</b>				<b>52.4%</b>			
Cell Business iation Services LLC	03/21/2018	Communications	11.25%	L+975	23,301,182	\$ 22,545,408	\$ 24,466,24
CA Verified Buildings, Inc.	04/02/2018	Retail	11.92%	L+1,175 <sup>(8)</sup>	38,382,219	37,594,531	38,835,18
CA Verified Buildings, Inc.	04/02/2018	Retail			7,500,000	7,500,000	7,588,51
Gaming I, C	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825	5,210,625	5,067,986	5,236,67
llander ep Products, C	10/20/2020	Consumer Products	9.00%	L+800	4,500,000	4,432,500	4,432,50
Q Holdings, <sup>(5)</sup>	03/30/2017	Auto Sector	11.50%		11,500,000	11,369,159	12,463,12
uSystem Buildings, Inc.	11/30/2016	Healthcare, Education and Childcare	13.16%	P+992	8,000,000	8,000,000	8,190,48
tkson Hewitt k Service	10/16/2017	Personal, Food and Miscellaneous Services	10.00%	L+850	7,777,902	7,774,409	7,739,01
Pure utions Cal, L.P.	08/19/2019	Chemicals, Plastics and Rubber	10.00%	L+900	22,342,352	21,957,793	22,003,56
ic USA GP l Linc ergy ance SA), Inc. <sup>(5)</sup>	10/31/2017	Oil and Gas	9.63%		5,626,850	5,626,850	5,851,92
riort tional, Inc. /a Old	11/27/2018	Insurance	12.50%	L+1,150	49,851,923	47,685,257	50,350,44



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ard Risk ervices, Inc.)							
ance Mineral lding Corp.	12/16/2019	Mining, Steel, Iron and Non- Precious Metals	11.50%		14,250,000	14,116,948	15,960,00
M Energy C, Tranche	07/18/2019	Energy and Utilities	12.00%	L+1,000	75,000,000	73,440,857	74,250,00
M Energy C, Tranche	07/20/2015	Energy and Utilities	15.00%	L+1,300	27,500,000	26,727,390	27,500,00
bertshaw Holding rp. (f/k/a k US Bidco rp.)	06/18/2019	Electronics	9.00%	L+750	12,352,942	12,235,053	12,331,04
bertshaw Holding rp. (f/k/a k US Bidco rp.) <sup>(9)</sup>	06/18/2019	Electronics			2,647,058	2,647,058	2,642,36
era Defense olutions, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	19,838,145	18,826,225	17,854,33
AK quisition rp.	04/30/2018	Business Services	12.00%	L+1,050	23,952,411	23,659,108	23,952,41
AK quisition rp. <sup>(9)</sup>	10/31/2017	Business Services			1,000,000	985,000	1,000,00
st Inns nited <sup>(10), (12)</sup>	02/12/2020	Buildings and Real Estate	11.06%	L+1,050 <sup>(8)</sup>	27,118,544	42,793,869	44,024,50
S. Well ervices, LLC	05/02/2019	Oil and Gas	12.00%	L+1,150	16,235,293	15,901,463	16,206,78
orley Claims ervices, LLC	07/06/2017	Insurance	12.50%	L+1,100	11,201,270	11,201,270	11,425,29
<b>Total First Lien Secured Debt</b>						422,088,134	434,304,40
<b>Second Lien Secured Debt 58.5%</b>							
merican sonite mpany <sup>(5)</sup>	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	27,432,00
ncensus, Inc.	12/02/2020	Financial Services	9.00%	L+800	15,500,000	15,297,220	15,655,00
nnu Oil & s, LLC	11/01/2018	Oil and Gas	8.75%	L+750	19,750,360	19,659,292	19,635,21
rolina verage oup, LLC	08/01/2018	Beverage, Food and Tobacco	10.63%		13,125,000	13,125,000	13,551,56
	10/05/2020	Business Services	9.25%	L+800	14,000,000	13,817,560	13,930,00

Technologies Intermediate Buildings, Inc.							
Acquisition Company, C	11/04/2021	Healthcare, Education and Childcare	9.75%	L+875	24,700,000	24,324,871	24,700,000
Foundation Building Materials, LLC	04/30/2019	Building Materials	12.00%	L+1,100	45,000,000	44,557,044	44,981,600
Foundation Building Materials, LLC	04/30/2019	Building Materials	13.00%	L+1,200	32,776,212	32,181,185	32,762,812
Intermediate Transportation (S), LLC <sup>(5)</sup>	03/01/2017	Cargo Transport	(PIK 1.00%) <sup>(6)</sup>		3,945,483	3,945,485	1,183,640
... Cosmetics Buildings, Inc.	07/31/2019	Consumer Products	11.00%	L+1,000	34,000,000	33,374,349	34,505,950
Jobs Entertainment, ...	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175	38,950,000	38,400,639	36,223,500
... Custom Products Inc.	10/29/2019	Consumer Products	9.50%	L+825	9,500,000	9,368,296	9,515,860
Language ... LLC	12/20/2016	Personal, Food and Miscellaneous Services	10.50%	L+875	33,750,000	33,397,785	33,384,480
... USA GP ... Linc Energy ... ... SA), Inc. <sup>(5)</sup>	10/31/2017	Oil and Gas	12.50%		11,875,000	11,585,997	12,379,680
... Gulf Sources, ... C <sup>(5)</sup>	05/15/2019	Oil and Gas	11.75%		45,000,000	44,615,705	45,675,000
... vitex Acquisition, ... C	07/07/2021	Business Services	11.75%	L+1,050	41,250,000	40,850,421	40,425,000
... nton Media, ...	10/02/2020	Media	9.00%	L+775	21,000,000	20,728,983	20,973,750
... -Paid Legal Services, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	9.75%	L+850	56,750,000	56,012,103	57,317,500
<b>Total Second Ten Secured Debt</b>						480,641,935	484,232,570

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value
<b>Coordinated Debt/Corporate Notes 24.8%</b>							
Antia, LLC	10/02/2017	Electronics	14.00%		19,000,000	\$ 18,697,637	\$ 19,145,8
Union Group Holdings, Inc.	09/14/2018	Consumer Products	14.50%		35,983,184	31,471,438	30,585,7
			(PIK 14.50%)				
Union Investments C <sup>(5)</sup>	08/15/2018	Consumer Products	13.50%		15,096,000	15,096,000	14,039,2
Geus Technologies, C	02/15/2019	Financial Services	12.00%		8,930,000	8,795,450	8,805,3
Verigint Technologies C	03/26/2018	Electronics	12.00%		23,753,813	23,422,959	23,991,3
			(PIK 1.00%)				
dit Infonet,	10/26/2018	Personal, Food and Miscellaneous Services	12.50%		10,633,397	10,462,892	10,261,4
			(PIK 1.25%)				
rgy & loration ners, Inc.	07/01/2019	Oil and Gas	8.00%		9,500,000	9,500,000	9,310,0
quisition, C	06/30/2017	Distribution	14.00%		19,874,148	19,543,873	17,886,7
			(PIK 2.00%)				
Park, Inc.	06/15/2017	Printing and Publishing	14.50% <sup>(7)</sup>		15,000,000	14,758,098	15,000,0
v Gulf ources, C <sup>(5)</sup>	11/15/2019	Oil and Gas	12.00%		13,500,000	13,040,004	10,665,0
			(PIK 12.00%)				
ver ducts, LLC	12/11/2020	Electronics	12.75% <sup>(7)</sup>		15,000,000	14,793,246	15,225,0
dall-Reilly lishing npany, C	04/15/2019	Other Media	12.50% <sup>(7)</sup>		30,400,000	29,860,100	30,704,0

<b>Total Subordinated Debt/Corporate Notes</b>				209,441,697	205,619,6
<b>Preferred Equity/Partnership Interests 1.6%</b>					
Holdings,	Healthcare, Education and Childcare	6.00%	211	500,000	
C	Other Media		7,505	318,896	
zzanine,					
C					
geus	Financial Services		949	949,050	427,9
hnologies					
dings					
p.					
geus					
hnologies,					
C)					
(IHS)	Healthcare, Education and Childcare	8.00%	76,357	765,307	2,216,4
vestment					
dings,					
C					
(IHS)	Healthcare, Education and Childcare		38,179	382,654	1,108,2
vestment					
dings,					
C <sup>(9)</sup>					
vergent	Electronics	8.00%	2,375	2,375,000	2,790,5
hnologies					
dings,					
C					
vergent					
hnologies					
C)					
metics US,	Consumer Products	8.00%	3,397	3,397,484	3,580,3
.					
metics					
dings,					
)					
Point,	Other Media	8.00%	3,591	21,727	31,8
C					
e	Personal	8.00%	1,966,667	2,251,667	712,1
dings, Inc.	Transportation				
Holdings,	Insurance		686	685,820	685,8
, Series A					
Holdings,	Insurance	6.50%	1,312	1,312,006	1,799,3
, Series B					
<b>Total Preferred Equity/Partnership Interests</b>				12,959,611	13,352,6



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

<b>Name</b>	<b>Maturity / Expiration</b>	<b>Industry</b>	<b>Current Index Coupon<sup>(f)</sup></b>	<b>Basis Point Spread Above Par / Shares</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Equity/Partnership Interests/Warrants 9.1%</b> <sup>(6)</sup>						
... LLC, Class A Units <sup>(11)</sup>		Electronics		1,998	\$ 2,000,000	\$
... Group Holdings, Inc., Series A	12/12/2023	Consumer Products		4,798,624	10,265,972	8
... Group Holdings, Inc., Series B	12/12/2023	Consumer Products		9,822,196		
... ngs, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare		753		
... echnologies Holding Corp. ... echnologies, LLC)		Financial Services		1	950	
... Holdings, Inc. (Warrants)	05/05/2026	Education		933	586,975	
... ames, LLC		Broadcasting and Entertainment		1,333,333	3,000,000	
... ogistics Holdings LLC <sup>(11)</sup> ... nsportation 100 Holdco, L.L.C.) ... ate Transportation 100, L.L.C.)		Cargo Transport		137,923	2,111,588	
... Holdings, LLC <sup>(11)</sup> ... on Building Materials, LLC)		Building Materials		207,242	2,250,000	2
... Holdings, LLC <sup>(9), (11)</sup> ... on Building Materials, LLC)		Building Materials		103,621	1,125,000	1
... Prime Investment Holdings,		Distribution		1,505,000	1,505,000	1
... nvestment Holdings, LLC		Healthcare, Education and Childcare		23,416	234,693	
... nvestment Holdings, LLC <sup>(9)</sup>		Healthcare, Education and Childcare		11,708	117,346	
... nt Technologies Holdings, LLC ... nt Technologies LLC)		Electronics		2,375		
... ologies Holdings, LLC ... ologies Intermediate Holdings,		Business Services		5,556	545,887	3
... etics US, Inc. ... etics Holdings, Inc.)		Consumer Products		252	2,516	
... Holdings, LLC, Class A		Healthcare, Education and Childcare		1,079,920	1,236,832	9
... Holdings, LLC, Class D				1,079,920	1,028,807	1

		Healthcare, Education and Childcare			
serv Co-Invest Holdings, LLC <sup>(11)</sup>		Environmental	1,000,000	1,000,000	
		Services			
Hunter Resources Corporation	04/16/2016	Oil and Gas	122,192	182,498	
JF Holdings Corp.		Distribution	1,850	1,850,294	
sitions, LLC)					
n PPL Holdings, Corp.		Personal, Food and Miscellaneous	3,000	3,000,000	5
Legal Services, Inc.)		Services			
Resources, LLC <sup>(11)</sup> (Warrants)	05/09/2024	Oil and Gas	13,500	495,000	2
tional, Inc.	11/27/2023	Insurance	62,932	1,290,904	3
Guard Risk Services, Inc.)					
Acquisition Corp.		Healthcare, Education and Childcare	20,000	1,171,851	2
ducts Holdings, LLC, Class A		Electronics	1,350,000	1,350,000	1
ducts, LLC)					
ducts Holdings, LLC, Class B		Electronics	150,000	150,000	
ducts, LLC)					
ergy LLC <sup>(11)</sup>		Energy and Utilities	828	827,922	
, LLC		Other Media	388,378	1,629,791	3
ings, Inc.		Personal	9,882	11,314	
		Transportation			
l Holdings Corp.		Chemicals, Plastics and Rubber	3,000	2,419,203	9
quisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	
gs, L.P.		Insurance	2	9,567	1
Parent Holdings, Inc.		Printing and	211,797	793,873	3
		Publishing			
ldings, Inc.		Business Services	35,526	4,050,000	4
s Holdings, Inc. (Warrants)	10/21/2021	Retail	1,736	168,799	
<b>Common Equity/Partnership Interests/Warrants</b>				46,441,982	75
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>				1,171,573,359	1,212

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS





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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2014

	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	
<b>Controlled, Affiliated Portfolio Companies 8.2%</b> <sup>(1), (2)</sup>						
<b>1.1%</b>						
... Holdings, Inc.	12/26/2017	Environmental Services	9.00%	L+800	9,409,740	\$ 9
<b>Corporate Notes 4.8%</b>						
	11/05/2019	Consumer Products	12.00%		11,632,136	11
	10/02/2017	Auto Sector	(PIK 12.00%) 12.50%		28,000,000	27
<b>Corporate Notes</b>						
... Inc.		Aerospace and Defense			53,071	20
<b>Ownership Interests/Warrants 2.1%</b> <sup>(6)</sup>						
... Warrants)	11/05/2022	Consumer Products			104,719	21
... c.		Consumer Products			15,486	
... ty Holdings, Inc.)		Environmental Services			143,668	11
		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3
... s, Inc. (Service Champ, Inc.)		Auto Sector			16,800	2
... Inc.		Aerospace and Defense			53,071	
<b>Ownership Interests/Warrants</b>						
<b>Controlled, Affiliated Portfolio Companies</b>						
<b>Affiliated Portfolio Companies 4.6%</b> <sup>(1), (2)</sup>						
<b>3%</b>						
... C	12/31/2018	Media	13.50%	L+1,250	22,150,000	19
... C <sup>(9)</sup>	12/31/2018	Media			2,850,000	2

	06/30/2020	Business Services	14.00% <sup>(7)</sup>	9,250,000	9
<b>bt</b>					
<b>ate Notes 0.3%</b>					
	6/30/2020	Business Services	14.00% <sup>(7)</sup>	2,250,000	2
		Business Services	14.00%	2,500	2
ldings, Inc. (LC)		Media		4,750	2
		Business Services		100	
<b>olled, Affiliated Portfolio Companies</b>					
					38
					1,318
<b>8.0%</b>					
Temp Cash, Institutional Shares					6
nd Cash					59
<b>alents</b>					
					60
<b>a Equivalent 167.2%</b>					
					\$ 1,385
<b>r Assets (67.2%)</b>					

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as **non-controlled** when we own less than 25% of a portfolio company's voting securities and **controlled** when we own 25% or more of a portfolio company's voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is deemed as **non-affiliated** when we own less than 5% of a portfolio company's voting securities and **affiliated** when we own 5% or more of a portfolio company's voting securities (see Note 6).
- (3) Valued based on our accounting policy (see Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, or L or Prime, or P rate. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is payable in cash and/or PIK.
- (8) Coupon is not subject to a LIBOR or Prime rate floor.

- (9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (10) Non-U.S. company or principal place of business outside the U.S.
- (11) Investment is held through a consolidated taxable subsidiary (See Note 1).
- (12) Par amount is denominated in British Pounds.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**(Unaudited)**

**1. ORGANIZATION**

PennantPark Investment was organized as a Maryland corporation in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. PennantPark Investment's objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and, to a lesser extent, equity investments. On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol PNNT. Our 2025 Notes trade on the New York Stock Exchange, or the NYSE, under the symbol PNTA.

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

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

We have formed and expect to continue to form certain taxable subsidiaries, or the Taxable Subsidiaries, which are taxed as corporations for federal income tax purposes. The Taxable Subsidiaries allow us to hold equity securities of portfolio companies organized as pass-through entities while continuing to satisfy the requirements of a RIC under the Code.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements, have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions.

References to the Financial Accounting Standards Board's Accounting Standards Codification, as amended, or ASC, serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

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

Our significant accounting policies consistently applied are as follows:

**(a) *Investment Valuations***

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

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

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

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

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

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**JUNE 30, 2015**

**(Unaudited)**

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

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

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

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

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

***(c) Income Taxes***

We have complied with the requirements of Subchapter M of the Code and expect to be subject to taxation as a RIC. As a result, we account for income taxes using the asset liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing

assets and liabilities. Based upon PennantPark Investment's qualification and election to be subject to taxation as a RIC, we do not anticipate paying any material level of federal income taxes in the future. Although we are not subject to federal income taxes as a RIC, we may elect to retain a portion of our calendar year income. We accrued no excise taxes for either of the three or nine month periods ended June 30, 2015 or 2014.

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.

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

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

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

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

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

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

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

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

Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices to be more volatile than those of comparable U.S. companies or U.S. government securities.





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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**JUNE 30, 2015**

**(Unaudited)**

***(f) Consolidation***

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

***(g) Recent Accounting Pronouncements***

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Public companies are required to apply ASU 2015-03 retrospectively for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company is currently evaluating the impact of the adoption of ASU 2015-03 on its consolidated financial statements and disclosures.

**3. AGREEMENTS**

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

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets, which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded investments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the three and nine months ended June 30, 2015, the Investment Adviser earned base management fees of \$6.5 million and \$20.1 million, respectively, from us. For the three and nine months

ended June 30, 2014, the Investment Adviser earned base management fees of \$6.1 million and \$17.9 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees other than fees for providing managerial assistance, such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the three and nine months ended June 30, 2015, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$5.2 million and \$15.6 million, respectively, from us. For the three and nine months ended June 30, 2014, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$3.7 million and \$13.2 million, respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For each of the three and nine months ended June 30, 2015 and 2014, the Investment Adviser did not earn an incentive fee on capital gains as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments and foreign currencies held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For the three and nine months ended June 30, 2015, the Investment Adviser did not accrue an incentive fee on unrealized and realized capital gains as calculated under GAAP. For each of the three and nine months ended June 30, 2014, the Investment Adviser accrued an incentive fee on unrealized and realized capital

gains as calculated under GAAP of \$1.7 million.

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**JUNE 30, 2015**

**(Unaudited)**

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2015. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. The Administrator provides similar services to our SBIC Funds under each of their administration agreements with PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment has agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and PennantPark Investment's allocable portion of the costs of compensation and related expenses for its Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on PennantPark Investment's behalf, managerial assistance to portfolio companies to which PennantPark Investment is required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statement of Operations. For the three and nine months ended June 30, 2015, the Investment Adviser was reimbursed \$0.7 million and \$3.1 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for the services described above. For the three and nine months ended June 30, 2014, the Investment Adviser was reimbursed \$0.6 million and \$2.7 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for the services described above.

PennantPark Investment has entered into an administration agreement with its controlled affiliate SPH. Under the administration agreement with SPH, or the SPH Administration Agreement, PennantPark Investment through the Administrator furnishes SPH with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Additionally, the Administrator performs or oversees the performance of SPH's required administrative services, which include, among other things, maintaining financial records, preparing financial reports and filing tax returns. Payments under the SPH Administration Agreement are equal to an amount based upon SPH's allocable portion of the Administrator's overhead in performing its obligations under the SPH Administration Agreement, including rent and allocable portion of the cost of compensation and related expenses of our Chief Financial Officer and his staff. For the three and nine months ended June 30, 2015, PennantPark Investment was reimbursed \$0.1 million and \$0.4 million, respectively, for the services described above. For the three and nine months ended June 30, 2014, PennantPark Investment was reimbursed \$0.1 million and \$0.4 million, respectively, for the services described above.

**4. INVESTMENTS**

Purchases of investments, including PIK interest, for the three and nine months ended June 30, 2015 totaled \$115.7 million and \$352.5 million, respectively. For the same periods in the prior year, purchases of investments, including PIK interest, totaled \$193.7 million and \$568.4 million, respectively. Sales and repayments of investments for the three and nine months ended June 30, 2015 totaled \$107.0 million and \$289.5 million, respectively. For the same periods in the prior year, sales and repayments of investments totaled \$273.6 million and \$534.4 million, respectively.

Investments and cash equivalents consisted of the following:

Investment Classification	June 30, 2015		September 30, 2014	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 391,506,127	\$ 381,419,096	\$ 453,835,589	\$ 465,593,894
Second lien	629,459,688	611,706,781	489,813,322	493,360,024
Subordinated debt / corporate notes	230,472,223	191,448,621	250,905,632	247,146,967
Equity and partnership interests	151,550,134	109,471,645	124,299,777	111,953,881
<b>Total investments</b>	<b>1,402,988,172</b>	<b>1,294,046,143</b>	<b>1,318,854,320</b>	<b>1,318,054,766</b>
Cash and cash equivalents	83,378,632	83,328,972	66,600,195	66,518,682
<b>Total investments, cash and cash equivalents</b>	<b>\$ 1,486,366,804</b>	<b>\$ 1,377,375,115</b>	<b>\$ 1,385,454,515</b>	<b>\$ 1,384,573,448</b>

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

Industry Classification	June 30, 2015	September 30, 2014
Personal, Food and Miscellaneous Services	12%	9%
Hotels, Motels, Inns and Gaming	11	3
Buildings Materials	8	6
Consumer Products	8	9
Oil and Gas	8	9
Business Services	7	8
Energy and Utilities	6	8
Distribution	4	2
Environmental Services	4	2
Auto Sector	3	4
Buildings and Real Estate	3	3
Financial Services	3	2
Media	3	3
Other Media	3	3
Retail	3	4
Chemicals, Plastics and Rubber	2	2
Communications	2	2
Diversified Natural Resources, Precious Metals and Minerals	2	2
Electronics	2	6
Healthcare, Education and Childcare	1	4
Insurance		5
Other	5	4
<b>Total</b>	<b>100%</b>	<b>100%</b>



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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

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

**JUNE 30, 2015**

**(Unaudited)**

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

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



pricing an asset.

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

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. Our ability to observe valuation inputs resulted in one reclassification from Level 2 to 3 and one reclassification from Level 3 to 2 during the nine months ended June 30, 2015 and no reclassification of assets between levels during the nine months ended June 30, 2014.

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

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

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

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2015****(Unaudited)**

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

<b>Asset Category</b>	<b>Fair Value at June 30, 2015</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>
Debt investments	\$ 313,534,495	Market Comparable	Broker/Dealer bid quotes	N/A
Debt investments	864,397,763	Market Comparable	Market Yield	3.0% 40.0% (13.8%)
Equity investments	2,475,791	Market Comparable	Broker/Dealer bid quotes	N/A
Equity investments	105,353,322	Enterprise Market Value	EBITDA multiple	3.4x 16.3x (8.7x)
<b>Total Level 3 investments</b>	<b>\$ 1,285,761,371</b>			
Long-Term Credit Facility	\$ 98,565,960	Market Comparable	Market Yield	4.0%
2019 Notes	\$ 250,160,000	Market Comparable	Broker/Dealer bid quotes	N/A
<b>Asset Category</b>	<b>Fair Value at September 30, 2014</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>
Debt investments	\$ 480,344,879	Market Comparable	Broker/Dealer bid quotes	N/A
Debt investments	681,131,020	Market Comparable	Market Yield	9.7% 21.3% (13.2%)
Equity investments	12,163,865	Market Comparable	Broker/Dealer bid quotes	N/A
Equity investments	99,698,372	Enterprise Market Value	EBITDA multiple	3.3x 14.0x (8.8x)
<b>Total Level 3 investments</b>	<b>\$ 1,273,338,136</b>			

Long-Term Credit Facility	\$ 53,497,620	Market Comparable	Market Yield	4.1%
2019 Notes	\$ 251,350,250	Market Comparable	Broker/Dealer bid quotes	N/A

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

Description	Fair Value	Fair Value at June 30, 2015		
		Level 1	Level 2	Level 3
Debt investments	\$ 1,184,574,498	\$	\$ 6,642,240	\$ 1,177,932,258
Equity investments	109,471,645		1,642,532	107,829,113
Total investments	1,294,046,143		8,284,772	1,285,761,371
Cash and cash equivalents	83,328,972	83,328,972		
Total investments, cash and cash equivalents	\$ 1,377,375,115	\$ 83,328,972	\$ 8,284,772	\$ 1,285,761,371
Long-Term Credit Facility	\$ 98,565,960	\$	\$	\$ 98,565,960
2019 Notes	250,160,000			250,160,000
2025 Notes	71,934,000	71,934,000		
Total debt	\$ 420,659,960	\$ 71,934,000	\$	\$ 348,725,960

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

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2015****(Unaudited)**

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

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

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

	\$ (66,210,579)	\$ (16,287,835)	\$ (82,498,414)
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<b>Description</b>	<b>Nine Months Ended June 30, 2014</b>		
	<b>Debt investments</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning Balance	\$ 915,414,415	\$ 110,923,751	\$ 1,026,338,166
Net realized gains	18,101,010	3,875,493	21,976,503
Net unrealized appreciation	470,447	23,854,264	24,324,711
Purchases, PIK interest, net discount accretion and non-cash exchanges	554,355,726	23,424,660	577,780,386
Sales, repayments and non-cash exchanges	(457,401,305)	(42,682,440)	(500,083,745)
Transfers in/out of Level 3			
<b>Ending Balance</b>	<b>\$ 1,030,940,293</b>	<b>\$ 119,395,728</b>	<b>\$ 1,150,336,021</b>

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

\$ 12,355,525    \$ (9,463,794)    \$ 2,891,731

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

<b>Long-Term Credit Facility and 2019 Notes</b>	<b>Carrying / Fair Value</b>	
	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Beginning Balance (cost \$305,226,300 and \$117,500,000, respectively)	\$ 304,847,870	\$ 117,500,000
Net change in unrealized (depreciation) appreciation included in earnings	(2,432,310)	1,288,592
Borrowings <sup>(1)</sup>	249,000,000	591,053,100
Repayments <sup>(1)</sup>	(228,689,600)	(452,654,400)
Transfers in and/or out of Level 3		
Ending Balance (cost \$325,536,700 and \$255,898,700, respectively)	\$ 322,725,960	\$ 257,187,292
Temporary draws outstanding, at cost	26,000,000	
Ending Balance (cost \$351,536,700 and \$255,898,700, respectively)	\$ 348,725,960	\$ 257,187,292

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

As of June 30, 2015, we had outstanding non-U.S. dollar borrowings on our Credit Facility denominated in British Pounds. Net unrealized depreciation on these outstanding borrowings is listed below:

<b>Foreign Currency</b>	<b>Local Currency</b>	<b>Original Borrowing Cost</b>	<b>Current Value</b>	<b>Reset Date</b>	<b>Net Unrealized Depreciation</b>
British Pound	£ 29,000,000	\$ 48,536,700	\$ 45,565,960	July 1, 2015	\$ (2,970,740)

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2015****(Unaudited)**

We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our Notes. We elected to use the fair value option for the Credit Facility and our Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three and nine months ended June 30, 2015, our Credit Facility and our Notes had a net change in unrealized depreciation of \$0.6 million and \$2.3 million, respectively. For the three and nine months ended June 30, 2014, our Credit Facility and our Notes had a net change in unrealized appreciation of \$3.4 million and \$5.4 million, respectively. As of June 30, 2015 and September 30, 2014, net unrealized depreciation (appreciation) on our Credit Facility and our Notes totaled \$2.1 million and \$(0.2) million, respectively. We use a nationally recognized independent valuation service to fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the NYSE, under the ticker PNTA and we use the closing price on the exchange to determine their fair value.

**6. TRANSACTIONS WITH AFFILIATED COMPANIES**

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A non-controlled affiliate is a portfolio company in which we own at least 5% but less than 25% of its voting securities and a controlled affiliate is a portfolio company in which we own 25% or more of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the nine months ended June 30, 2015 were as follows:

Name of Investment	Fair Value at September 30, 2014 <sup>(1)</sup>	Purchases of / Advances to Affiliates <sup>(1), (2)</sup>	Sale of / Distributions from Affiliates <sup>(1)</sup>	Income Accrued	Fair Value at June 30, 2015 <sup>(1)</sup>	Net Realized (Losses)
<b>Controlled Affiliates</b>						
MidOcean JF Holdings Corp. (JF Acquisition, LLC) <sup>(3)</sup>	\$ 21,210,823	\$ 9,109,043	\$ (4,000,000)	\$ 2,734,220	\$ 22,114,335	\$ 6,487,297

Superior Digital Displays Holdings, Inc.									
SuttonPark Holdings, Inc.	14,000,000	9,500,000		1,264,667				23,499,999	
<b>Non-Controlled Affiliates</b>									
DirectBuy Holdings, Inc.	11,283,172	1,078,612		475,754				7,372,234	
EnviroSolutions Holdings, Inc.	21,268,379			688,131				19,458,722	
NCP-Performance, L.P.									
PAS International Holdings, Inc.	1,650,729							12,630,183	
RAM Energy LLC <sup>(4)</sup>				3,292,216				83,600,000	
Service Champ, Inc.	33,645,241			2,704,232				33,243,979	
TRAK Acquisition Corp. <sup>(5)</sup>								21,163,420	
<b>Total Controlled and Non-Controlled Affiliates</b>									
	\$ 103,058,344	\$ 19,687,655	\$ (4,223,148)	\$ 11,159,220	\$		\$	229,570,170	\$

(1) Excluding delayed draws investments.

(2) Includes PIK.

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

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

(5) Became a non-controlled affiliate during the three months ended June 30, 2015.

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

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

	Three Months Ended June 30,		Nine Months End
	2015	2014	2015
Net increase in net assets resulting from operations	\$ 4,935,950	\$ 31,949,311	\$ (11,631,043)
for basic and diluted weighted average shares	74,779,503	66,569,036	74,988,442
Diluted net increase (decrease) in net assets resulting from operations per share	\$ 0.07	\$ 0.48	\$ (0.16)

## 8. CASH AND CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the

next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out our positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from average adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of June 30, 2015 and September 30, 2014, our cash and cash equivalents consisted of \$83.3 million and \$66.5 million, respectively.



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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2015**

**(Unaudited)**

**9. FINANCIAL HIGHLIGHTS**

Below are the financial highlights:

	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 11.03	\$ 10.49
Net investment income <sup>(1)</sup>	0.83	0.77
Net realized and unrealized (loss) gain <sup>(1)</sup>	(0.99)	0.91
Net (decrease) increase in net assets resulting from operations <sup>(1)</sup>	(0.16)	1.68
Distributions to stockholders <sup>(1), (2)</sup>	(0.84)	(0.84)
Repurchase of common stock <sup>(1)</sup>	0.01	
Net asset value, end of period	\$ 10.04	\$ 11.33
Per share market value, end of period	\$ 8.78	\$ 11.46
Total return* <sup>(3)</sup>	(17.07)%	9.30%
Shares outstanding at end of period	74,259,698	66,569,036
<b>Ratios**/ Supplemental Data:</b>		
Ratio of operating expenses to average net assets <sup>(4)</sup>	6.83%	6.90%
Ratio of interest and expenses on debt to average net assets	3.32%	3.19%
Ratio of total expenses to average net assets	10.15%	10.09%
Ratio of net investment income to average net assets	10.47%	9.45%
Net assets at end of period	\$ 745,543,177	\$ 754,472,793
Weighted average debt outstanding <sup>(5)</sup>	\$ 577,509,319	\$ 498,062,949

Weighted average debt per share <sup>(1), (5)</sup>	\$	7.70	\$	7.48
Asset coverage per unit <sup>(6)</sup>	\$	2,772	\$	3,288
Portfolio turnover ratio		29.74%		59.31%

\* Not annualized for periods less than one year.

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

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

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

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

(4) Excludes debt related costs.

(5) Includes SBA debentures outstanding.

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

## 10. DEBT

Our annualized weighted average cost of debt for the nine months ended June 30, 2015 and 2014, inclusive of the fee on the undrawn commitment on the Credit Facility and amortized upfront fees on SBA debentures but excluding debt issuance costs, was 4.55% and 3.94%, respectively. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing, excluding SBA debentures, pursuant to exemptive relief from the SEC received in June 2011.

### *Credit Facility*

We have a \$545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of June 30, 2015 and September 30, 2014, there was \$101.5 million and \$55.2 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.17% and 2.80%, exclusive of the fee on undrawn commitments of 0.375%. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.



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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2015**

**(Unaudited)**

***SBA Debentures***

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150.0 million as of June 30, 2015. We have funded SBIC II with \$37.5 million of equity capital and we received a commitment from the SBA to allow SBIC II to access \$75.0 million in SBA debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$225 million in the aggregate.

As of June 30, 2015 and September 30, 2014, our SBIC Funds had \$225.0 million in debt commitments and \$150.0 million was drawn for each period. Both SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures as of June 30, 2015 and September 30, 2014 were as follows:

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

(1) Excluding 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of June 30, 2015,

our SBIC Funds were in compliance with their regulatory requirements.

### **2019 Notes**

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

### **2025 Notes**

As of June 30, 2015 and September 30, 2014, we had \$71.3 million in aggregate principal amount of 2025 Notes. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and effectively subordinated to the assets pledged or secured under our Credit Facility. Our 2025 Notes trade on the NYSE under the symbol PNTA.

## **11. COMMITMENTS AND CONTINGENCIES**

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt and equity investments, if any, are disclosed in the Consolidated Schedule of Investments. As of June 30, 2015 and September 30, 2014, we had \$41.7 million and \$15.3 million, respectively, in commitments to fund various revolving and delayed draw investments.

We, in the ordinary course of business, have guaranteed certain obligations of SPH. The guaranties are only triggered if there were administrative errors in acquiring assets which SPH subsequently sold or securitized. As of June 30, 2015, our maximum guaranty was \$9.5 million. Based on SPH's and industry historical loss rates we believe the risk of loss is remote, thus, we have not recorded a liability associated with the guaranties. The current guaranties will decline over time.

## **12. STOCK REPURCHASE PROGRAM**

On May 6, 2015, we announced a share repurchase plan which allows us to repurchase up to \$35 million of our outstanding common stock in the open market at prices below our net asset value as reported in our then most recently published consolidated financial statements. The shares may be purchased from time to time at prevailing market prices, through open market transactions, including block transactions. Unless extended by our board of directors, the program, which may be implemented at the discretion of management, will expire on the earlier of May 6, 2016 and the repurchase of \$35 million of common stock. During the three and nine months ended June 30, 2015, we repurchased 833,213 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$8.0 million. During the three and nine months ended June 30, 2014, we did not make any repurchases of our common stock.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

We have reviewed the accompanying consolidated statement of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (the Company), including the consolidated schedule of investments, as of June 30, 2015, the consolidated statements of operations for the three and nine months ended June 30, 2015 and 2014, and the consolidated statements of changes in net assets and cash flows for the nine months ended June 30, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management.

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

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

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

/s/ McGladrey LLP

New York, New York

August 5, 2015

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

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

our future operating results;

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

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

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

the impact of investments that we expect to make;

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

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

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

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

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

the impact of European sovereign debt issues.

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

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

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

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

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

### ***Overview***

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

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



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

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

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

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

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

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

### ***Revenues***

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

### ***Expenses***

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

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

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

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

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

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal and state registration fees and any exchange listing fees;

federal, state, local and foreign taxes;

independent directors' fees and expenses;

brokerage commissions;

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

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

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

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

all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under

our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. Generally, during periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

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As of June 30, 2015, our portfolio totaled \$1,294.0 million and consisted of \$381.4 million of senior secured loans, \$611.7 million of second lien secured debt, \$191.4 million of subordinated debt and \$109.5 million of preferred and common equity. Our debt portfolio consisted of 71% variable-rate investments (including 65% with a LIBOR or prime floor) and 29% fixed-rate investments. Overall, the portfolio had net unrealized depreciation of \$109.0 million. As of June 30, 2015, we had two non-accrual debt investments, representing 1.2% of our overall portfolio on a cost basis. Our overall portfolio consisted of 64 companies with an average investment size of \$20.2 million, had a weighted average yield on debt investments of 12.4% and was invested 30% in senior secured loans, 47% in second lien secured debt, 15% in subordinated debt and 8% in preferred and common equity.

As of September 30, 2014, our portfolio totaled \$1,318.1 million and consisted of \$465.6 million of senior secured loans, \$493.4 million of second lien secured debt, \$247.1 million of subordinated debt and \$112.0 million of preferred and common equity. Our debt portfolio consisted of 67% variable-rate investments (including 61% with a LIBOR or prime floor) and 33% fixed-rate investments. Overall, the portfolio had net unrealized depreciation of \$0.9 million. As of September 30, 2014, we had one non-accrual debt investment, representing 0.3% of our overall portfolio on a cost basis. Our overall portfolio consisted of 67 companies with an average investment size of \$19.7 million, had a weighted average yield on debt investments of 12.5% and was invested 35% in senior secured loans, 37% in second lien secured debt, 19% in subordinated debt and 9% in preferred and common equity.

For the three months ended June 30, 2015, we invested \$113.3 million in three new and nine existing portfolio companies with a weighted average yield on debt investments of 10.8%. Sales and repayments of investments for the three months ended June 30, 2015 totaled \$107.0 million. For the nine months ended June 30, 2015, we invested \$344.8 million in eight new and 22 existing portfolio companies with a weighted average yield on debt investments of 12.1%. Sales and repayments of investments for the nine months ended June 30, 2015 totaled \$289.5 million.

For the three months ended June 30, 2014, we invested \$191.8 million in three new and nine existing portfolio companies with a weighted average yield on debt investments of 11.7%. Sales and repayments of investments for the three months ended June 30, 2014 totaled \$273.6 million. For the nine months ended June 30, 2014, we invested \$561.8 million in 16 new and 22 existing portfolio companies with a weighted average yield on debt investments of 12.1%. Sales and repayments of investments for the nine months ended June 30, 2014 totaled \$534.4 million.

**CRITICAL ACCOUNTING POLICIES**

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

***Valuation of Portfolio Investments***

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

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

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

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

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

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about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting period date.

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

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

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

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

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our Notes. We elected to use the fair value option for the Credit Facility and our Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three and nine months ended June 30, 2015, our Credit Facility and our Notes had a net change in unrealized depreciation of \$0.6 million and \$2.3 million, respectively. For the three and nine months ended June 30, 2014, our Credit Facility and our Notes had a net change in unrealized appreciation of \$3.4 million and \$5.4 million, respectively. As of June 30, 2015 and September 30, 2014, net unrealized depreciation (appreciation) on our Credit Facility and our Notes totaled \$2.1 million and \$(0.2) million, respectively. We use a nationally recognized independent valuation service to fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the NYSE, under the ticker "PNTA" and we use the closing price on the exchange to determine their fair value.



### ***Revenue Recognition***

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

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

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

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

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

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

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

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

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

### ***Federal Income Taxes***

We have elected to be taxed, and intend to qualify annually to maintain our election to be taxed, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements. We also must annually distribute at least 90% of the



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

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

**RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three and nine months ended June 30, 2015 and 2014.

***Investment Income***

Investment income for the three and nine months ended June 30, 2015 was \$40.6 million and \$122.5 million, respectively, and was attributable to \$12.3 million and \$42.6 million from senior secured loans, \$19.5 million and \$54.1 million from second lien secured debt, \$7.2 million and \$23.5 million from subordinated debt, and \$1.6 million and \$2.3 million from preferred and common equity, respectively. This compares to investment income for the three and nine months ended June 30, 2014, which was \$35.5 million and \$107.8 million, respectively, and was attributable to \$9.8 million and \$30.0 million from senior secured loans, \$13.3 million and \$39.9 million from second lien secured debt, \$11.6 million and \$35.7 million from subordinated debt, and \$0.8 million and \$2.2 million from preferred and common equity, respectively. The increase in investment income compared with the same periods in the prior year was primarily due to the growth of our portfolio.

***Expenses***

Expenses for the three and nine months ended June 30, 2015 totaled \$20.0 million and \$60.3 million, respectively. Base management fee for the same periods totaled \$6.5 million and \$20.1 million, incentive fee totaled \$5.2 million and \$15.6 million, debt related interest and expenses totaled \$6.6 million and \$19.7 million and general and administrative expenses totaled \$1.7 million and \$4.9 million, respectively. This compares to expenses for the three and nine months ended June 30, 2014, which totaled \$22.3 million and \$56.6 million, respectively. Base management fee for the same periods totaled \$6.1 million and \$17.9 million, incentive fee totaled \$5.4 million and \$14.9 million (including \$1.6 million on net realized gains accrued but not payable), debt related interest and expenses totaled \$8.9 million and \$18.6 million (including \$3.9 million of Credit Facility debt issuance costs) and general and administrative expenses totaled \$1.9 million and \$5.2 million, respectively. The decrease in expenses for the three months ended June 30, 2015 as compared to the same period in the prior year is due to the absence of debt issuance costs in the current period, whereas, the increase in expenses for the nine months ended June 30, 2015 as compared with the same period in the prior year was primarily due to increased borrowing costs and the growth of our portfolio.

### ***Net Investment Income***

Net investment income totaled \$20.7 million and \$62.2 million, or \$0.28 and \$0.83 per share, for the three and nine months ended June 30, 2015, respectively. Net investment income totaled \$13.2 million and \$51.2 million, or \$0.20 and \$0.77 per share, for the three and nine months ended June 30, 2014, respectively. The increase in net investment income compared to the same periods in the prior year was primarily due to the growth of our portfolio and lower amendment costs offset by higher financing costs.

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

Sales and repayments of investments for the three and nine months ended June 30, 2015 totaled \$107.0 million and \$289.5 million, respectively, and realized gains totaled \$13.8 million and \$31.9 million, respectively. Sales and repayments of investments for the three and nine months ended June 30, 2014 totaled \$273.6 million and \$534.4 million, respectively, and realized gains totaled \$23.3 million and \$29.0 million, respectively. The decrease in realized gains for the three months ended June 30, 2015 as compared to the same period in the prior year was driven by fewer exits of our portfolio companies, whereas the increase in realized gains for the nine months ended June 30, 2015 as compared with the same period in the prior year was primarily due to the improved merger and acquisition environment and a higher volume of sales and repayments.

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

For the three and nine months ended June 30, 2015, we reported net unrealized depreciation on investments of \$30.2 million and \$108.1 million, respectively. For the three and nine months ended June 30, 2014, we reported a net unrealized (depreciation) appreciation on investments of \$(1.1) million and \$37.4 million, respectively. As of June 30, 2015 and September 30, 2014, our net unrealized depreciation on investments totaled \$109.0 million and \$0.9 million, respectively. The decrease in value compared with the same periods in the prior year was the result of the overall variation in the leveraged finance markets and specifically, for energy related companies.

For the three and nine months ended June 30, 2015, we reported net unrealized depreciation on our Credit Facility and our Notes of \$0.6 million and \$2.3 million, respectively. For the three and nine months ended June 30, 2014, we reported a net unrealized (appreciation) on our Credit Facility and 2025 Notes of \$(3.4) million and \$(5.4) million, respectively. The change compared with the same periods in the prior year was primarily due to changes in the capital markets.

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

Net change in net assets resulting from operations totaled \$4.9 million and \$(11.6) million, or \$0.07 and \$(0.16) per share, for the three and nine months ended June 30, 2015, respectively. This compares to a net change in net assets resulting from operations of \$31.9 million and \$112.1 million, or \$0.48 and \$1.68 per share, for the three and nine months ended June 30, 2014, respectively. The decrease in the net change in net assets from operations compared with the same periods in the prior year reflects the change in portfolio investment values during the reporting periods.

## **LIQUIDITY AND CAPITAL RESOURCES**

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



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We have a \$545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of June 30, 2015 and September 30, 2014, there was \$101.5 million and \$55.2 million, respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.17% and 2.80%, respectively, exclusive of the fee on undrawn commitments of 0.375%. The annualized weighted average cost of debt for the nine months ended June 30, 2015 and 2014, inclusive of the fee on the undrawn commitment on the Credit Facility and upfront fees on SBA debentures, was 4.55% and 3.94%, respectively. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing is set at 225 basis points over LIBOR. As of June 30, 2015 and September 30, 2014, we had \$443.5 million and \$489.8 million of unused borrowing capacity, respectively, subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on June 30, 2014 and the Credit Facility agreement filed as Exhibit 99.2 thereto and incorporated by reference herein. As of June 30, 2015, we were in compliance with the terms of our Credit Facility.

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

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

We may raise additional equity or debt capital through both registered offerings off our shelf registration statement and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA, among other sources. Any future additional debt capital we incur, to the extent it is available, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility, SBA debentures or our Notes. Furthermore, our Credit Facility availability depends on various covenants and restrictions. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate or strategic purposes. For each of the nine month periods ended June 30, 2015 and 2014, we did not issue shares of common stock in connection with an equity offering. Any decision to sell shares below the then current net asset value per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below net asset value per share results in immediate dilution to our stockholders' interests in our common stock and a reduction

in our net asset value per share.

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150.0 million as of June 30, 2015. We have funded SBIC II with \$37.5 million of equity capital and we received a commitment from the SBA to allow SBIC II to access \$75.0 million in SBA debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$225.0 million in the aggregate.

As of June 30, 2015 and September 30, 2014, our SBIC Funds had \$225.0 million in debt commitments and \$150.0 million was drawn for each period. Both SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized. Our fixed-rate SBA debentures as of June 30, 2015 and September 30, 2014 were as follows:

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

(1) Excluding 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of June 30, 2015, our SBIC Funds were in compliance with their regulatory requirements.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that our asset coverage ratio is met after such borrowing. As of June 30, 2015 and September 30, 2014, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. In 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage ratio requirement to exclude the SBA debentures from the calculation. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% which, while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

At June 30, 2015 and September 30, 2014, we had cash and cash equivalents of \$83.3 million and \$66.5 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are

sufficient to take advantage of market opportunities.

Our operating activities provided cash of \$41.4 million for the nine months ended June 30, 2015, primarily for net purchases of investments. Our financing activities used cash of \$24.8 million for the same period, primarily to repay certain amounts under our Credit Facility.



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Our operating activities used cash of \$48.4 million for the nine months ended June 30, 2014, primarily for net purchases of investments. Our financing activities provided cash of \$54.5 million for the same period, primarily from net borrowings under our Credit Facility.

**Contractual Obligations**

A summary of our significant contractual payment obligations as of June 30, 2015, including borrowings under our various debt facilities and other contractual obligations, is as follows:

	Total	Payments due by period (in millions)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$ 101.5	\$	\$	\$ 101.5	\$
SBA debentures	150.0				150.0
2019 Notes	250.0			250.0	
2025 Notes	71.3				71.3
Total debt outstanding <sup>(1)</sup>	572.8			351.5	221.3
Unfunded investments <sup>(2)</sup>	41.7		36.0	4.1	1.6
Total contractual obligations	\$ 614.5	\$	\$ 36.0	\$ 355.6	\$ 222.9

(1) The annualized weighted average cost of debt as of June 30, 2015, excluding debt issuance costs, was 4.27% exclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility and 3.43% of upfront fees on SBA debentures.

(2) Unfunded debt and equity investments are disclosed in the Consolidated Schedule of Investments.

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

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2015, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements, which are intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, PennantPark Investment Advisers or PennantPark Investment Administration will be paid an additional amount based on the services provided, which amount will not in any case exceed the amount we receive from the portfolio companies for such services. Payment

under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

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

We, in the ordinary course of business, have guaranteed certain obligations of SPH. The guaranties are only triggered if there were administrative errors in acquiring assets which SPH subsequently sold or securitized. As of June 30, 2015, our maximum guaranty was \$9.5 million. Based on SPH's and the industry historical loss rates we believe the risk of loss is remote, thus, we have not recorded a liability associated with the guaranties. The current guaranties will decline over time.

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

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

### ***Distributions***

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

During the three and nine months ended June 30, 2015, we declared to stockholders distributions of \$0.28 and \$0.84 per share, respectively, for total distributions of \$20.8 million and \$62.8 million, respectively. For the same periods in the prior year, we declared distributions of \$0.28 and \$0.84 per share, respectively, for total distributions of \$18.6 million and \$55.9 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a return of capital to our common stockholders. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year and in our periodic reports filed with the SEC.

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

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

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

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***Recent Accounting Pronouncements***

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Public companies are required to apply ASU 2015-03 retrospectively for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company is currently evaluating the impact of the adoption of ASU 2015-03 on its consolidated financial statements and disclosures.

**STOCK REPURCHASE PROGRAM**

On May 6, 2015, we announced a share repurchase plan which allows us to repurchase up to \$35 million of our outstanding common stock in the open market at prices below our net asset value as reported in our then most recently published consolidated financial statements. The shares may be purchased from time to time at prevailing market prices, through open market transactions, including block transactions. Unless extended by our board of directors, the program, which may be implemented at the discretion of management, will expire on the earlier of May 6, 2016 and the repurchase of \$35 million of common stock. During the three and nine months ended June 30, 2015, we repurchased 833,213 shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$8.0 million. During the three and nine months ended June 30, 2014, we did not make any repurchases of our common stock.

**Table of Contents****Item 3. Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of June 30, 2015, our debt portfolio consisted of 71% variable-rate investments (including 65% with a LIBOR or prime floor) and 29% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates.

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

Change In Interest Rates	Change In Interest Income,		Net Of Interest Expense	
	(In Thousands)			Per Share
Up 1%	\$	807	\$	0.01
Up 2%	\$	8,913	\$	0.12
Up 3%	\$	17,019	\$	0.23
Up 4%	\$	25,125	\$	0.34

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

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

We may hedge against interest rate and foreign currency fluctuations by using standard hedging instruments such as futures, options and forward contracts or our Credit Facility subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates and foreign currencies, they may also limit our ability to participate in benefits of lower interest rates or higher exchange rates with respect to our portfolio of investments. During the periods covered by this Report, we did not engage in interest rate hedging activities.

**Item 4. Controls and Procedures**

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

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

Repurchases of our common stock under our share repurchase plan are as follows:

Period	Total Number of Shares (or Units) Average Price per Share (or Unit)		Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)	
	Total Number of Shares (or Units) Purchased	Average Price per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)
April 1, 2015 through June 30, 2015	833,213	\$ 9.59	833,213 <sup>(1)</sup>	\$ 27.0
Total	833,213		833,213	\$ 27.0

- (1) On May 6, 2015, we announced a share repurchase plan which allows us to repurchase up to \$35.0 million of our outstanding common stock. Unless extended by our board of directors, the program will expire on the earlier of May 6, 2016 and the repurchase of \$35.0 million of common stock.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.



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**Item 6. Exhibits**

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

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

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\* Filed herewith.

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**SIGNATURES**

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

PENNANTPARK INVESTMENT CORPORATION

Date: August 5, 2015

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

**(Principal Executive Officer)**

Date: August 5, 2015

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

**(Principal Financial and Accounting Officer)**