

PENNANTPARK INVESTMENT CORP
Form 10-Q
February 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTER ENDED DECEMBER 31, 2013

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 814-00736

PENNANTPARK INVESTMENT
CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of February 5, 2014 was 66,569,036.

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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, 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; Credit Facility refers to our multi-currency, senior secured revolving credit facility; 2025 Notes refers to our 6.25% senior notes due 2025; 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**

	December 31, 2013	September 30, 2013
	(unaudited)	
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments	\$ 1,055,902,267	\$ 968,471,042
(cost \$1,001,294,305 and \$928,078,589, respectively)		
Non-controlled, affiliated investments	84,447,274	76,735,800
(cost \$107,398,794 and \$99,021,141, respectively)		
Controlled, affiliated investments	68,931,881	32,968,711
(cost \$99,193,930 and \$64,418,155, respectively)		
Total of investments (cost \$1,207,887,029 and \$1,091,517,885, respectively)	1,209,281,422	1,078,175,553
Cash and cash equivalents (See Note 8)	30,803,635	58,440,829
Interest receivable	8,685,856	10,894,893
Prepaid expenses and other assets	6,661,622	5,815,817
Total assets	\$ 1,255,432,535	\$ 1,153,327,092
Liabilities		
Distributions payable	\$ 18,633,086	\$ 18,619,812
Payable for investments purchased	14,450,000	52,544,704
Unfunded investments	32,474,167	7,241,667
Credit Facility payable (cost \$240,000,000 and \$145,500,000, respectively) (See Notes 5 and 10)	240,000,000	145,500,000
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)	64,296,000	68,400,000
Management fee payable (See Note 3)	5,747,060	5,419,557
Performance-based incentive fee payable (See Note 3)	4,488,779	4,274,881
Interest payable on debt	3,250,388	1,810,466
Accrued other expenses	3,227,868	2,009,806
Total liabilities	536,567,348	455,820,893
Commitments and contingencies (See Note 11)		
Net assets		
Common stock, 66,546,734 and 66,499,327 shares issued and outstanding, respectively.	66,546	66,499

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Par value \$0.001 per share and 100,000,000 shares authorized.		
Paid-in capital in excess of par value	756,554,170	756,017,096
Distributions in excess of net investment income	(5,353,186)	(4,675,217)
Accumulated net realized loss on investments	(40,750,736)	(43,409,847)
Net unrealized appreciation (depreciation) on investments	1,394,393	(13,342,332)
Net unrealized depreciation on debt	6,954,000	2,850,000
Total net assets	\$ 718,865,187	\$ 697,506,199
Total liabilities and net assets	\$ 1,255,432,535	\$ 1,153,327,092
Net asset value per share	\$ 10.80	\$ 10.49

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Three Months Ended December 31,	
	2013	2012
Investment income from:		
Non-controlled, non-affiliated investments:		
Interest	\$ 28,964,935	\$ 25,768,617
Other income	2,514,857	4,366,274
Non-controlled, affiliated investments:		
Interest	1,264,610	1,392,503
Other income		227,800
Controlled, affiliated investments:		
Interest	1,393,454	1,202,707
Other income	300,833	
Total investment income	34,438,689	32,957,901
Expenses:		
Base management fee (See Note 3)	5,747,060	5,128,611
Performance-based incentive fee (See Note 3)	4,488,779	4,545,254
Interest and expenses on debt (See Note 10)	4,559,523	3,094,865
Administrative services expenses (See Note 3)	911,596	1,172,322
Other general and administrative expenses	776,614	760,532
Expenses before taxes	16,483,572	14,701,584
Tax expense		75,301
Total expenses	16,483,572	14,776,885
Net investment income	17,955,117	18,181,016
Realized and unrealized gain (loss) on investments and debt:		
Net realized gain on investments	2,659,111	871,132
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments	14,215,508	6,062,321
Non-controlled and controlled, affiliated investments	521,217	3,974,217
Debt depreciation (appreciation) (See Notes 5 and 10)	4,104,000	(547,500)
Net change in unrealized appreciation	18,840,725	9,489,038
Net realized and unrealized gain from investments and debt	21,499,836	10,360,170

Net increase in net assets resulting from operations	\$ 39,454,953	\$ 28,541,186
Net increase in net assets resulting from operations per common share (See Note 7)	\$ 0.59	\$ 0.44
Net investment income per common share	\$ 0.27	\$ 0.28

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Three Months Ended December 31,	
	2013	2012
Net increase in net assets from operations:		
Net investment income	\$ 17,955,117	\$ 18,181,016
Net realized gain on investments	2,659,111	871,132
Net change in unrealized appreciation on investments	14,736,725	10,036,538
Net change in debt depreciation (appreciation)	4,104,000	(547,500)
Net increase in net assets resulting from operations	39,454,953	28,541,186
Distributions to stockholders:		
Distributions	(18,633,086)	(18,579,935)
Capital transactions:		
Public offering		7,574,000
Offering costs		(265,090)
Reinvestment of distributions	537,121	1,515,213
Net increase in net assets resulting from capital transactions	537,121	8,824,123
Net increase in net assets	21,358,988	18,785,374
Net assets:		
Beginning of period	697,506,199	669,717,047
End of period	\$ 718,865,187	\$ 688,502,421
(Distributions in excess of) Undistributed net investment income, at end of period	\$ (5,353,186)	\$ 2,405,477
Capital share activity:		
Shares issued from public offering		700,000
Shares issued from reinvestment of dividends	47,407	142,408

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Three Months Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 39,454,953	\$ 28,541,186
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in net unrealized appreciation on investments	(14,736,725)	(10,036,538)
Net change in unrealized (appreciation) depreciation on debt	(4,104,000)	547,500
Net realized gain on investments	(2,659,111)	(871,132)
Net accretion of discount and amortization of premium	(2,254,165)	(1,451,536)
Purchases of investments	(227,964,735)	(168,396,168)
Payment-in-kind income	(2,216,279)	(4,138,861)
Proceeds from dispositions of investments	143,957,646	110,832,747
Decrease in interest receivable	2,209,037	4,113,599
(Increase) decrease in prepaid expenses and other assets	(845,805)	364,301
(Decrease) increase in payable for investments purchased	(38,094,704)	1,357,840
Increase in interest payable on debt	1,439,922	1,596,384
Increase in management fee payable	327,503	336,698
Increase in performance-based incentive fee payable	213,898	338,265
Increase in accrued other expenses	1,218,062	1,097,717
Net cash used for operating activities	(104,054,503)	(35,767,998)
Cash flows from financing activities:		
Public offerings		7,574,000
Offering costs		(265,090)
Distributions paid, net of dividends reinvested	(18,082,691)	(14,308,848)
Borrowings under Credit Facility (See Note 10)	400,000,000	376,300,000
Repayments under Credit Facility (See Note 10)	(305,500,000)	(309,800,000)
Net cash provided by financing activities	76,417,309	59,500,062
Net (decrease) increase in cash equivalents	(27,637,194)	23,732,064
Cash and cash equivalents, beginning of period	58,440,829	7,559,453
Cash and cash equivalents, end of period	\$ 30,803,635	\$ 31,291,517

Supplemental disclosure of cash flow information and non-cash financing activity:

Interest paid	\$ 3,007,330	\$ 1,378,858
Dividends reinvested	\$ 537,121	\$ 1,515,213
Conversions and non-cash exchanges	\$ 51,577,498	\$ 41,353,789

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2013

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies				146.9% ^{(1), (2)}			
First Lien							
Secured							
Debt 38.3%							
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975 ⁽⁸⁾	23,759,966	\$ 22,918,525	\$ 25,660,763
AKA Diversified Holdings, Inc.	12/21/2016	Retail	12.50%	L+1,225	15,473,511	15,216,343	15,487,928
AP Gaming I, LLC	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825 ⁽⁸⁾	5,250,000	5,092,500	5,118,750
CEVA Group PLC ^{(5), (10)}	10/01/2016	Cargo Transport	11.63%		4,000,000	3,943,221	4,180,000
Columbus International, Inc. ^{(5), (10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	10,775,000
Cydcor LLC	06/12/2017	Business Services	9.75%	L+725 ⁽⁸⁾	7,185,935	7,185,934	7,242,101
IDQ Holdings, Inc. ⁽⁵⁾	03/30/2017	Auto Sector	11.50%		11,500,000	11,336,576	11,960,000
InfuSystem Holdings, Inc.	11/30/2016	Healthcare, Education and Childcare	11.61%	P+625 ⁽⁸⁾	11,600,000	11,600,000	11,864,868
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	23,872,262	23,768,582	23,633,539
Instant Web, Inc.	08/07/2014	Printing and Publishing	3.62%	L+338	20,331,551	16,954,817	18,400,053
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950 ⁽⁸⁾	17,812,500	17,542,365	17,812,500
Jackson Hewitt Tax Service Inc.	10/16/2017	Personal, Food and Miscellaneous Services	10.00%	L+850 ⁽⁸⁾	8,355,469	8,349,808	8,271,914
	08/19/2019		10.00%	L+900 ⁽⁸⁾	22,342,352	21,916,241	22,116,757

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K2 Pure Solutions NoCal, L.P.		Chemicals, Plastics and Rubber					
Old Guard Risk Services, Inc.	11/27/2018	Insurance	12.50%	L+1,150 ⁽⁸⁾	31,500,000	30,282,188	30,870,000
Prince Mineral Holding Corp. ⁽⁵⁾	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,100,483	15,853,125
TRAK Acquisition Corp.	04/30/2018	Business Services	12.00%	L+1,050 ⁽⁸⁾	33,833,300	33,364,161	33,833,300
Worley Claims Services LLC	07/06/2017	Insurance	12.50%	L+1,100 ⁽⁸⁾	12,199,559	12,199,559	12,443,550
Total First Lien Secured Debt						265,771,303	275,524,148
Second Lien Secured Debt 53.4%							
American Gilsonite Company ⁽⁵⁾	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	24,384,000
Arsloane Acquisition, LLC	10/01/2020	Business Services	11.75%	L+1,050 ⁽⁸⁾	18,750,000	18,390,069	18,562,500
Ascensus, Inc.	12/02/2020	Financial Services	9.00%	L+800 ⁽⁸⁾	15,500,000	15,269,063	15,732,500
Bennu Oil & Gas, LLC	11/01/2018	Oil and Gas	10.25%	L+900 ⁽⁸⁾	11,733,858	11,629,358	11,821,862
Carolina Beverage Group, LLC	08/01/2018	Beverage, Food and Tobacco	10.63%		13,125,000	13,125,000	13,781,250
CT Technologies Intermediate Holdings, Inc.	10/05/2020	Business Services	9.25%	L+800 ⁽⁸⁾	14,000,000	13,797,853	13,982,500
Envision Acquisition Company, LLC	11/04/2021	Healthcare, Education and Childcare	9.75%	L+875 ⁽⁸⁾	19,000,000	18,622,830	19,190,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy/Utilities	12.50%		45,000,000	44,619,259	46,912,500
Foundation Building Materials, LLC	04/30/2019	Building Materials	13.00%	L+1,200 ⁽⁸⁾	22,537,500	22,045,554	22,237,447
Foundation Building Materials, LLC ⁽⁹⁾	10/30/2015	Building Materials	(PIK 1.00%)		10,000,000	9,825,000	9,866,865

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ILC Industries, LLC	06/14/2019	Electronics	11.50%	L+1,000 ⁽⁸⁾	7,500,000	7,209,612	7,125,000
Intermediate Transportation 100, L.L.C. ⁽⁵⁾	03/01/2017	Cargo Transport	11.00%	L+700 ⁽⁸⁾	3,544,830	3,544,832	3,544,830
Jacobs Entertainment, Inc.	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175 ⁽⁸⁾	38,950,000	38,292,710	38,950,000
KIK Custom Products, Inc.	10/29/2019	Consumer Products	9.50%	L+825 ⁽⁸⁾	9,500,000	9,357,500	9,547,500
Language Line, LLC	12/20/2016	Personal, Food and Miscellaneous Services	10.50%	L+875 ⁽⁸⁾	33,750,000	33,306,658	33,370,312
Linc USA GP and Linc Energy Finance (USA), Inc. ⁽⁵⁾	10/31/2017	Oil and Gas	12.50%		11,875,000	11,529,304	12,943,750
Penton Media, Inc.	10/02/2020	Media	9.00%	L+775 ⁽⁸⁾	21,000,000	20,699,519	20,947,500
Pre-Paid Legal Services, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	9.75%	L+850 ⁽⁸⁾	56,750,000	55,954,600	56,040,625
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+550 ⁽⁸⁾	2,387,269	2,387,269	2,363,396
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%	P+750 ⁽⁸⁾	2,575,569	2,575,569	2,524,058
			(PIK 11.50%)				
Total Second Lien Secured Debt						377,581,559	383,828,395

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2013

(Unaudited)

				Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair
	Maturity	Industry	Current Coupon				
Fixed Debt/Corporate Notes	43.1%						
ABC	10/02/2017	Electronics	13.75%		19,000,000	\$ 18,630,454	\$ 1
Group Holdings, Inc. (5)	09/14/2018	Consumer Products	14.50%		40,949,500	34,047,690	3
			(PIK 14.50%)				
Investments LLC (5)	08/15/2018	Consumer Products	13.50%		15,096,000	15,206,083	1
Technologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,780,963	
Technologies LLC	03/26/2018	Electronics	12.00%		23,574,586	23,190,338	2
			(PIK 1.00%)				
et, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	12.25%		10,600,000	10,406,446	1
on, LLC	06/30/2017	Distribution	14.00%		17,604,973	17,266,788	1
			(PIK 2.00%)				
are Group (US) Inc.	05/08/2020	Education	15.00%		7,757,188	7,328,702	
			(PIK 15.00%)				
e Products, Inc.	01/19/2019	Chemicals, Plastics and Rubber	12.50%		30,000,000	30,000,000	3
e Products, Inc. (9)	01/11/2014	Chemicals, Plastics and Rubber			5,000,000	4,825,000	
c.	06/15/2017	Printing and Publishing	14.50% (7)		15,000,000	14,707,114	1
ucts, LLC	12/11/2020	Electronics	12.75%		15,000,000	14,741,324	1
			(PIK 2.00%)				
lly Publishing Company, LLC	04/15/2019	Other Media	12.50% (7)		30,400,000	29,808,958	3
ational Energy Mezzanine Funding	01/15/2018	Oil and Gas	14.00%		37,449,581	36,857,509	3
			(PIK 4.00%)				
ernational, Inc.	06/27/2019	Printing and Publishing	12.00%		39,892,933	39,177,714	4

ordinated Debt/Corporate Notes			304,975,083	30
Equity/Partnership Interests 1.2%⁽⁶⁾				
gs, Inc.	Healthcare, Education and Childcare	6.00%	211	500,000
anine, LLC	Other Media		7,505	318,896
chnologies Holdings Corp., Series A chnologies, LLC)	Financial Services		949	949,050
vestment Holdings, LLC (Health Solutions, Inc.)	Healthcare, Education and Childcare	8.00%	76,357	765,307
vestment Holdings, LLC ⁽⁹⁾ (Health Solutions, Inc.)	Healthcare, Education and Childcare		38,179	382,654
Technologies Holdings, LLC Technologies LLC)	Electronics	8.00%	2,375	2,375,000
Inc.	Other Media	8.00%	3,591	24,177
s, L.P., Series A	Insurance		686	685,820
s, L.P., Series B	Insurance	6.50%	1,312	1,312,006
ings, Inc.	Personal Transportation	8.00%	1,824,167	1,824,167
urred Equity/Partnership Interests			9,137,077	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2013****(Unaudited)**

Issuer Name	Maturity	Industry	Current Index Coupon⁽⁴⁾	Basis Point Spread Above Par / Shares	Cost	Fair Value ⁽³⁾
Common Equity/Warrants/Partnership Interests 10.9%						
Acentia, LLC, Class A Units ⁽¹²⁾		Electronics		1,998	\$ 2,000,000	\$ 1,300,534
Affinion Group Holdings, Inc., Series A (Warrants)	12/12/2023	Consumer Products		1,888,055	2,380,193	2,380,193
Affinion Group Holdings, Inc., Series B (Warrants)	12/12/2023	Consumer Products		9,822,196		
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare		753		2,510,880
Alegeus Technologies Holding Corp., Class A (Alegeus Technologies, LLC)		Financial Services		1	950	702
Autumn Games, LLC		Broadcasting and Entertainment		1,333,330	3,000,000	
CI (FBM) Holdings, LLC ⁽¹⁴⁾ (Foundation Building Materials, LLC)		Building Materials		207,242	2,250,000	2,250,000
CI (FBM) Holdings, LLC ^{(9), (14)} (Foundation Building Materials, LLC)		Building Materials		103,621	1,125,000	1,125,000
CI (Galls) Prime Investment Holdings, LLC ⁽¹¹⁾		Distribution		1,505,000	1,505,000	2,131,025
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare		23,416	234,693	431,367
CI (IHS) Investment Holdings, LLC ⁽⁹⁾ (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare		11,708	117,346	215,683
Convergent Technologies Holdings, LLC (Convergent Technologies LLC)		Electronics		2,375		701,911
		Business Services		5,556	545,887	5,048,020

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CT Technologies Holdings, LLC					
HW Topco, Inc.		Other Media	386,770	2,697,834	3,524,036
Kadmon Holdings, LLC, Class A		Healthcare, Education and Childcare	1,079,920	1,236,832	8,935,569
Kadmon Holdings, LLC, Class D		Healthcare, Education and Childcare	1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Education	6,649	779,920	4,653,477
Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)		Oil and Gas	1,221,932	3,057,500	8,932,323
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	04/16/2016	Oil and Gas	122,193	182,499	272,259
MidOcean JF Holdings Corp. (JF Acquisitions, LLC)		Distribution	1,850	1,850,294	1,761,027
MidOcean PPL Holdings, Corp. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services	3,000	3,000,000	6,307,135
Old Guard Risk Services, Inc. (Warrants)	11/27/2023	Insurance	35,490	495,086	519,154
Paradigm Acquisition Corp.		Healthcare, Education and Childcare	20,000	2,000,000	3,938,082
Power Products Holdings, LLC, Class A Units (Power Products, LLC)		Electronics	1,350,000	1,350,000	1,350,000
Power Products Holdings, LLC, Class B Units (Power Products, LLC)		Electronics	150,000	150,000	150,000
QMG HoldCo, LLC, Class A (Questex Media Group, LLC)		Other Media	4,325	1,306,166	2,303,044
QMG HoldCo, LLC, Class B (Questex Media Group, LLC)		Other Media	531		282,755
SPG Boyd Holdings Corp. (LTI Flexible Products, Inc.)		Chemical, Plastic and Rubber	3,000	3,000,000	6,486,623
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	596,304
Transportation 100 Holdco, L.L.C. ⁽¹³⁾ (Intermediate Transportation 100, L.L.C.)		Cargo Transport	137,923	2,111,588	433,133
TZ Holdings, L.P.		Insurance	2	9,567	
Vestcom Parent Holdings, Inc. (Vestcom International, Inc.)		Printing and Publishing	211,797	2,325,555	3,298,311
VRide Holdings Inc.		Personal Transportation	9,166	9,166	
VText Holdings, Inc.		Business Services	35,526	4,050,000	5,629,236
Total Common Equity/Warrants/Partnership				43,829,283	78,496,590

Interests

Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies	1,001,294,305	1,055,902,267
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SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2013****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Affiliated Portfolio Companies 11.7%^{(1), (2)}							
Second Lien							
Secured Debt 1.2%							
EnviroSolutions Real Property Holdings, c.	12/26/2017	Environmental Services	9.00%	L+800 ⁽⁸⁾	9,409,740	\$ 9,129,208	\$ 9,127,448
Subordinated							
Debt/Corporate							
Notes 5.4%							
DirectBuy Holdings, c.	11/05/2019	Consumer Products	12.00%		10,645,053	10,645,053	10,645,054
			(PIK 12.00%)				
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%		28,000,000	27,506,329	28,391,235
Total Subordinated Debt/Corporate Notes						38,151,382	39,036,289
Preferred Equity							
1% ⁽⁶⁾							
AS International Holdings, Inc.		Aerospace and Defense			53,071	20,059,340	523,407
Common Equity/Partnership Interest 5.0%⁽⁶⁾							
DirectBuy Holdings, c.		Consumer Products			104,719	21,492,822	4,656,003
DirectBuy Holdings, c. (Warrants)	11/05/2022	Consumer Products			15,486		688,382
EnviroSolutions Holdings, Inc.		Environmental Services			142,684	11,891,822	23,136,931
EnviroSolutions Real Property							

Holdings, Inc.)								
CP-Performance, P.		Leisure, Amusement,			375,000	3,750,000	1,288,200	
		Motion Pictures and Entertainment						
New Service Champ Holdings, Inc.		Auto Sector			16,800	2,721,600	5,990,614	
Service Champ, (c.)								
AS International Holdings, Inc.		Aerospace and Defense			53,071	202,620		
Total Common Equity/Partnership Interest						40,058,864	35,760,130	
Total Investments in Non-Controlled, Affiliated Portfolio Companies						107,398,794	84,447,274	
Investments in Controlled, Affiliated Portfolio Companies 9.6% ^{(1), (2)}								
First Lien Secured Debt 6.3%								
Superior Digital Displays, LLC	12/31/2018	Media	13.50%	L+1,250 ⁽⁸⁾	12,000,000	10,639,835	10,638,720	
Superior Digital Displays, LLC ⁽⁹⁾	12/31/2018	Media			13,000,000	11,526,821	11,525,280	
PenntonPark Holdings, c.	06/30/2020	Business Services	14.00% ⁽⁷⁾		9,250,000	9,250,000	9,549,190	
Universal Pegasus International, LLC	12/31/2015	Oil and Gas	6.50% ⁽⁸⁾	L+500	10,040,624	8,206,775	9,839,812	
Universal Pegasus International, LLC ⁽⁹⁾	12/31/2015	Oil and Gas			3,500,000	3,166,724	3,500,000	
Total First Lien Secured Debt						42,790,155	45,053,002	
Second Lien Secured Debt 2.4%								
Universal Pegasus International, LLC	12/31/2015	Oil and Gas	15.00%		17,252,578	15,522,063	16,907,520	
								(PIK 15.00%)
Subordinated Debt/Corporate Notes 0.2%								
PenntonPark Holdings, c.	6/30/2020	Business Services	14.00% ⁽⁷⁾		2,250,000	2,250,000	1,967,514	
Preferred Equity 0.4%								

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nttonPark Holdings, c.	Business Services	14.00%	2,000	2,000,000	1,983,296
iversal Pegasus nternational oldings, Inc. niversal Pegasus nternational, LLC)	Oil and Gas	8.00%	376,988	34,420,612	809,543
Total Preferred Equity				36,420,612	2,792,839
Common Equity 0.3%					
uperior Digital splays Holdings, c. uperior Digital splays, LLC)	Media		4,750	2,211,000	2,211,000
nttonPark Holdings, c.	Business Services		100	100	
Total Common Equity				2,211,100	2,211,000
Total Investments in Controlled, Affiliated Portfolio Companies				99,193,930	68,931,881
Total Investments 168.2%				1,207,887,029	1,209,281,422
Cash and Cash Equivalents 4.3%					
ackRock Liquidity nds, Temp Cash, stitutional Shares NY Mellon Cash eserve				924,316	924,316
Total Cash and Cash Equivalents				30,803,635	30,803,635
Total Investments and Cash Equivalents 172.5%				\$ 1,238,690,664	\$ 1,240,085,057
Liabilities in Excess of Other Assets (72.5%)					(521,219,870)
Net Assets 100.0%					\$ 718,865,187

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2013

(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.
- (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 payment-in-kind or PIK.
- (8) Coupon is subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investments). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the U.S.
- (11) Investment is held through PNNT CI (Galls) Prime Investment Holdings, LLC, a consolidated subsidiary.
- (12) Investment is held through PNNT Acentia LLC, a consolidated subsidiary.
- (13) Investment is held through PNNT Transportation 100 Holdco, L.L.C., a consolidated subsidiary.
- (14) Investment is held through PNNT CI (FBM) Holdings, LLC, a consolidated subsidiary.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2013

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 138.9% ^{(1),(2)}							
First Lien Secured							
Total 41.3%							
Cellco Partnership Services LLC	06/21/2017	Communications	11.25%	L+975 ⁽⁸⁾	23,912,894	\$ 23,012,057	\$ 25,347,600
CVS Retail Pharmacy	12/21/2016	Retail	12.50%	L+1,225	14,550,084	14,310,552	14,694,800
CVS Health Services, Inc.			(PIK 1.50%)				
CVS Health Services, Inc. (5),(10)	10/01/2016	Cargo Transport	11.63%		7,500,000	7,385,251	7,725,000
Comcast International, Inc. (5),(10)	11/20/2014	Communications	11.50%		10,000,000	10,000,000	10,750,000
Corporation LLC	06/12/2017	Business Services	9.75%	L+725 ⁽⁸⁾	7,342,967	7,342,967	7,342,967
Food Sam's Club Enterprises, Inc. (5)	12/01/2016	Consumer Products	11.50%		12,000,000	11,835,907	12,900,000
Q Holdings, Inc. (5)	03/30/2017	Auto Sector	11.50%		11,500,000	11,326,110	12,391,200
System Holdings, Inc.	11/30/2016	Healthcare, Education and Childcare	11.95%	P+625 ⁽⁸⁾	11,600,000	11,600,000	11,708,400
ant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	23,934,268	23,788,980	22,976,800
ant Web, Inc.	08/07/2014	Printing and Publishing	3.55%	L+338	18,199,679	13,917,288	14,559,700
eractive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950 ⁽⁸⁾	18,050,000	17,770,705	18,050,000
xson Hewitt Service	10/16/2017	Personal, Food and Miscellaneous	10.00%	L+850 ⁽⁸⁾	8,355,469	8,349,704	8,230,100

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Services							
Pure Solutions Cal, L.P.	08/19/2019	Chemicals, Plastics and Rubber	10.00%	L+900 ⁽⁸⁾	22,342,352	21,899,258	22,007,2
ton Media,	08/01/2014	Other Media	6.00%	L+500 ⁽⁸⁾	37,950,152	36,110,124	37,523,2
			(PIK 2.00%)				
nce Mineral ding Corp.	12/16/2019	Mining, Steel, Iron and Non- Precious Metals	11.50%		14,250,000	14,096,169	15,176,2
AK quisition p.	04/30/2018	Business Services	12.00%	L+1,050 ⁽⁸⁾	34,270,800	33,766,321	34,270,8
rley Claims vices LLC	07/06/2017	Insurance	12.50%	L+1,100 ⁽⁸⁾	12,451,096	12,451,096	12,388,8
al First n Secured ot						278,962,489	288,043,2
ond Lien ured ot 48.9%							
erican sonite pany ⁽⁵⁾	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000	25,971,5
loane quisition, C	10/01/2020	Business Services	11.75%	L+1,050 ⁽⁸⁾	18,750,000	18,375,000	18,687,5
nd Energy	10/23/2019	Energy / Utilities	11.00%	L+975 ⁽⁸⁾	42,278,570	41,471,524	43,159,2
rastructure vices, Inc.							
olina verage up, LLC	08/01/2018	Beverage, Food and Tobacco	10.63%		13,125,000	13,125,000	13,420,3
vision quisition pany, C	09/23/2021	Healthcare, Education and Childcare	9.75%	L+875 ⁽⁸⁾	19,000,000	18,620,000	18,905,0
eka Hunter eline, LLC	08/16/2018	Energy / Utilities	12.50%		45,000,000	44,599,796	46,575,0
C Industries, C	06/14/2019	Electronics	11.50%	L+1,000 ⁽⁸⁾	7,500,000	7,200,000	6,900,0
ermediate nsportation , L.L.C.	03/01/2017	Cargo Transport	11.00%	L+700 ⁽⁸⁾	3,544,833	3,544,836	3,544,8
			(PIK 11.00%)				
obs ertainment,	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175 ⁽⁸⁾	38,950,000	38,287,499	39,096,0
	12/20/2016		10.50%	L+875 ⁽⁸⁾	33,750,000	33,265,829	33,187,3

Language e, LLC		Personal, Food and Miscellaneous Services					
USA GP	10/31/2017	Oil and Gas	12.50%		11,875,000	11,511,878	13,062,500
Linc							
Energy Finance (A), Inc. ⁽⁵⁾							
PAID Legal Services, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	9.75%	L+850 ⁽⁸⁾	56,750,000	55,923,621	56,040,600
estex Media up LLC, m Loan A	12/15/2014	Other Media	9.50%	L+550 ⁽⁸⁾	2,395,378	2,395,378	2,371,400
estex Media up LLC, m Loan B	12/15/2015	Other Media	11.50%	P+750 ⁽⁸⁾	2,502,333	2,502,333	2,452,200
Finance C and ROC ance 1 p.	08/31/2018	Hotels, Motels, Inns and Gaming	12.13%	(PIK 11.50%)	16,000,000	15,785,252	17,720,000
Total Second n Secured ot						332,007,946	341,093,700

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Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2013**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value ⁽³⁾
Subordinated Debt/Corporate Notes			37.4%				
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	\$ 18,629,082	\$ 18,879,139
Affinion Group Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,570,664	20,442,400
Alegeus Technologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,773,751	8,888,617
Convergint Technologies LLC	03/26/2018	Electronics	12.00%		23,514,494	23,114,286	23,867,211
Credit Infonet, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	12.25%	(PIK 1.00%)	10,600,000	10,399,101	10,653,423
Escort, Inc.	06/01/2016	Electronics	14.75%	(PIK 2.75%)	25,965,563	25,579,621	26,484,875
JF Acquisition, LLC	06/30/2017	Distribution	14.00%	(PIK 2.00%)	17,517,386	17,160,955	17,517,386
Learning Care Group (US) Inc.	05/08/2020	Education	15.00%	(PIK 15.00%)	7,215,989	6,754,246	7,215,989
LTI Flexible Products, Inc.	01/19/2019	Chemicals, Plastics and Rubber	12.50%		30,000,000	30,000,000	30,525,000
LTI Flexible Products, Inc. ⁽⁹⁾	01/11/2014	Chemicals, Plastics and Rubber			5,000,000	4,825,000	5,087,500
MSPark, Inc.	06/15/2017	Printing and Publishing	14.50% ⁽⁷⁾		15,000,000	14,691,342	14,700,000
Varel International Energy Mezzanine Funding Corp.	01/15/2018	Oil and Gas	14.00%	(PIK 4.00%)	37,070,637	36,441,726	36,720,586
Vestcom International, Inc.	06/27/2019	Printing and Publishing	12.00%		39,892,933	39,147,926	39,827,248
						270,087,700	260,809,374

**Total Subordinated
Debt/Corporate
Notes****Preferred
Equity/Partnership
Interests 1.2%**

AH Holdings, Inc.	Healthcare, Education and Childcare	6.00%	211	500,000	815,133
AHC Mezzanine, LLC	Other Media		7,505	318,896	
Alegeus Technologies Holdings Corp., Series A (Alegeus Technologies, LLC)	Financial Services		949	949,050	805,697
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)	Healthcare, Education and Childcare	8.00%	76,357	765,307	1,187,410
CI (IHS) Investment Holdings, LLC ⁽⁹⁾ (Interactive Health Solutions, Inc.)	Healthcare, Education and Childcare		38,179	382,654	593,705
Convergint Technologies Holdings, LLC (Convergint Technologies LLC)	Electronics	8.00%	2,375	2,375,000	2,584,106
CT Technologies Holdings, LLC	Business Services	9.00%	326,215	326,215	326,215
HW Topco, Inc.	Other Media	8.00%	3,591	24,177	35,091
TZ Holdings, L.P., Series A	Insurance		686	685,820	685,820
TZ Holdings, L.P., Series B	Insurance	6.50%	1,312	1,312,006	862,664
VRide Holdings, Inc.	Personal Transportation	8.00%	1,824,167	1,824,167	156,029

**Total Preferred
Equity/Partnership
Interests**

9,463,292 8,051,870

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2013

Issuer Name	Maturity	Industry	Current Index Coupon ⁽⁴⁾	Basis Point Spread Above Par / Shares	Cost	Fair Value ⁽³⁾
Common Equity/Warrants/Partnership Interests 10.1%						
Acentia, LLC, Class A Units ⁽¹²⁾		Electronics		1,998	\$ 2,000,000	\$ 1,572,603
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare		753		2,499,319
Alegeus Technologies Holding Corp., Class A (Alegeus Technologies, LLC)		Financial Services		1	950	807
Autumn Games, LLC		Broadcasting and Entertainment		1,333,330	3,000,000	
CI (Galls) Prime Investment Holdings, LLC ⁽¹¹⁾		Distribution		1,505,000	1,505,000	2,308,777
CI (IHS) Investment Holdings, LLC (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare		23,416	234,693	364,156
CI (IHS) Investment Holdings, LLC ⁽⁹⁾ (Interactive Health Solutions, Inc.)		Healthcare, Education and Childcare		11,708	117,346	182,078
Convergint Technologies Holdings, LLC (Convergint Technologies LLC)		Electronics		2,375		212,881
CT Technologies Holdings, LLC		Business Services		5,556	1,918,346	7,285,399
HW Topco, Inc.		Other Media		386,770	2,697,835	3,400,855
Kadmon Holdings, LLC, Class A		Healthcare, Education		1,079,920	1,236,832	11,085,403

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Kadmon Holdings, LLC, Class D		and Childcare Healthcare, Education	1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	and Childcare Education	6,649	779,920	4,300,696
Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)		Oil and Gas	1,221,932	3,057,500	7,539,320
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	10/14/2013	Oil and Gas	122,193	105,697	
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	04/16/2016	Oil and Gas	122,193	182,499	205,667
MidOcean JF Holdings Corp. (JF Acquisition, LLC)		Distribution	1,850	1,850,294	1,845,784
MidOcean PPL Holdings, Corp. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services	3,000	3,000,000	5,441,976
Paradigm Acquisition Corp.		Healthcare, Education	20,000	2,000,000	3,720,481
QMG HoldCo, LLC, Class A (Questex Media Group, LLC)		and Childcare Other Media	4,325	1,306,167	2,073,419
QMG HoldCo, LLC, Class B (Questex Media Group, LLC)		Other Media	531		254,563
SPG Boyd Holdings Corp. (LTI Flexible Products, Inc.)		Chemical, Plastic and Rubber	300,000	3,000,000	5,571,120
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	606,681
Transportation 100 Holdco, L.L.C. ⁽¹³⁾		Cargo Transport	137,923	2,111,588	379,453

(Intermediate Transportation 100, L.L.C.)				
TZ Holdings, L.P.	Insurance	2	9,567	
Vestcom Parent Holdings, Inc. (Vestcom International, Inc.)	Printing and Publishing	211,797	2,325,555	2,626,512
VRide Holdings Inc.	Personal Transportation	9,166	9,166	
VText Holdings, Inc.	Business Services	35,526	4,050,000	5,966,074
Total Common Equity/Warrants/Partnership Interests			37,557,162	70,472,831
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies			928,078,589	968,471,042

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2013

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Value (3)
Investments in Non-Controlled, Affiliated Portfolio Companies 11.0%^{(1),(2)}							
Subordinated Debt/Corporate							
Notes 5.7%							
DirectBuy Holdings, Inc.	11/05/2019	Consumer Products	12.00%		11,428,224	\$ 11,428,224	\$ 11,428,224
			(PIK 12.00%)				
Service Champ, Inc.	10/02/2017	Auto Sector	12.50%		28,000,000	27,474,713	28,248,043
Total Subordinated Debt/Corporate						38,902,937	39,676,267
Notes							
Preferred Equity 0.2%⁽⁶⁾							
PAS International Holdings, Inc.		Aerospace and Defense			53,071	20,059,340	1,694,296
Common Equity/Partnership Interest 5.1%⁽⁶⁾							
DirectBuy Holdings, Inc.		Consumer Products			104,719	21,492,822	5,556,207
DirectBuy Holdings, Inc. (Warrants)	11/05/2022	Consumer Products			15,486		821,505
EnviroSolutions Holdings, Inc.		Environmental Services			142,684	11,891,822	21,265,345
NCP-Performance		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000	2,500,165
		Auto Sector			16,800	2,721,600	5,222,015

New Service Champ Holdings, Inc. (Service Champ, Inc.)						
PAS International Holdings, Inc.		Aerospace and Defense		53,071	202,620	
Total Common Equity/Partnership Interest					40,058,864	35,365,237
Total Investments in Non-Controlled, Affiliated Portfolio Companies					99,021,141	76,735,800
Investments in Controlled, Affiliated Portfolio Companies 4.7%^{(1),(2)}						
First Lien Secured Debt 1.6%						
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁷⁾	9,250,000	9,250,000	9,556,385
Universal Pegasus International, LLC ⁽⁹⁾	12/31/2015	Oil and Gas		1,916,667	1,787,941	1,916,667
Total First Lien Secured Debt					11,037,941	11,473,052
Second Lien Secured Debt 2.4%						
Universal Pegasus International, LLC	12/31/2015	Oil and Gas	15.00%	16,615,645	14,709,502	16,449,489
			(PIK 15.00%)			
Subordinated Debt/Corporate Notes 0.3%						
SuttonPark Holdings, Inc.	6/30/2020	Business Services	14.00% ⁽⁷⁾	2,250,000	2,250,000	1,961,667
Preferred Equity 0.4%⁽⁶⁾						
SuttonPark Holdings, Inc.		Business Services	14.00%	2,000	2,000,000	1,981,948
Universal Pegasus International Holdings, Inc. (Universal Pegasus International, LLC)		Oil and Gas	8.00%	376,988	34,420,612	1,102,555
Total Preferred Equity					36,420,612	3,084,503
Common Equity 0.0%⁽⁶⁾						
		Business Services		100	100	

SuttonPark Holdings, Inc.		
Total Investments in Controlled, Affiliated Portfolio Companies	64,418,155	32,968,711
Total Investments 154.6%	1,091,517,885	1,078,175,553
Cash and Cash Equivalents 8.4%		
Cash	2,667,511	
BlackRock Liquidity Funds, Temp Cash, Institutional Shares	2,446,232	5,113,743
BNY Mellon Cash Reserve	53,327,086	53,327,086
Total Cash Equivalents	58,440,829	58,440,829
Total Investments and Cash Equivalents 163.0%	\$ 1,149,958,714	\$ 1,136,616,382
Liabilities in Excess of Other Assets (63.0%)		(439,110,183)
Net Assets 100.0%		\$ 697,506,199

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2013

- (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.
- (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 subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investments). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the U.S.
- (11) Investment is held through PNNT CI (Galls) Prime Investment Holdings, LLC, a consolidated subsidiary.
- (12) Investment is held through PNNT Acentia LLC, a consolidated subsidiary.
- (13) Investment is held through PNNT Transportation 100 Holdco, L.L.C., a consolidated subsidiary.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

(Unaudited)

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation in January 2007. PennantPark Investment is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC. 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 May 2010 and July 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as small business investment companies, or SBICs, under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act, in July 2010 and January 2013, respectively. 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. These 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. Actual results could differ from these estimates. 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 Accounting Standards Codification, 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. Changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ.

Our Consolidated Financial Statements are prepared in accordance with GAAP 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 will not be readily available market values for many of our investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy, described 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.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

(Unaudited)

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

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

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. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

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

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments and our Credit Facility 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 are capitalized and we then accrete or amortize such amounts 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.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

(Unaudited)

(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 tax as a RIC, we do not anticipate paying any material level of federal income taxes in the future. Although we are not subject to tax as a RIC, we have elected to retain a portion of our calendar year income and accrued estimated excise taxes of zero and \$0.1 million for the three months ended December 31, 2013 and 2012, respectively.

PennantPark Investment recognizes in its Consolidated Financial Statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. We did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2009 remain subject to examination by the Internal Revenue Service and the New York State department of revenue.

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 determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually. The tax attributes for distributions will generally include ordinary income and capital gains but may also include 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) Consolidation

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

3. AGREEMENTS

The Investment Management Agreement with the Investment Adviser was re-approved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2014. 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.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

(Unaudited)

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, 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 delayed draw loans, 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 months ended December 31, 2013 and 2012, the Investment Adviser earned base management fees of \$5.7 million and \$5.1 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, distribution income and any other income, including any other fees other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus 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 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, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of 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 adjusted for any share issuances or repurchases during the relevant quarter. For each of the three months ended December 31, 2013 and 2012, the Investment Adviser earned a performance-based incentive fee on net investment income, as calculated under the Investment Management Agreement, of \$4.5 million 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 20.0% 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 months ended December 31, 2013 and 2012, the Investment Adviser did not earn a performance-based 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 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 aggregate cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For each of the three months ended December 31, 2013 and 2012, the Investment Adviser did not accrue an incentive fee on capital gains as calculated under GAAP.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2013****(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 2014. 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, technology systems, insurance 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 each of the three months ended December 31, 2013 and 2012, the Investment Adviser and Administrator, collectively, were reimbursed \$0.5 million from us, including expenses 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 each of the three months ended December 31, 2013 and 2012, PennantPark Investment was reimbursed \$0.1 million for the services described above.

4. INVESTMENTS

Purchases of long-term investments, including PIK, for the three months ended December 31, 2013 and 2012 totaled \$230.2 million and \$172.5 million, respectively. Sales and repayments of long-term investments for the three months ended December 31, 2013 and 2012 totaled \$144.0 million and \$110.8 million, respectively.

Investments and cash equivalents consisted of the following:

Investment Classification	December 31, 2013		September 30, 2013	
	Cost	Fair Value	Cost	Fair Value

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First lien	\$ 308,561,458	\$ 320,577,150	\$ 290,000,430	\$ 299,516,291
Second lien	402,232,830	409,863,369	346,717,448	357,543,217
Subordinated debt / corporate notes	345,376,465	350,764,976	311,240,637	302,447,308
Preferred equity and partnership interests	65,617,029	11,608,207	65,943,244	12,830,669
Common equity and partnership interests	86,099,247	116,467,720	77,616,126	105,838,068
Total investments	1,207,887,029	1,209,281,422	1,091,517,885	1,078,175,553
Cash and cash equivalents	30,803,635	30,803,635	58,440,829	58,440,829
Total investments, cash and cash equivalents	\$ 1,238,690,664	\$ 1,240,085,057	\$ 1,149,958,714	\$ 1,136,616,382

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2013****(Unaudited)**

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	December 31, 2013	September 30, 2013
Personal, Food and Miscellaneous Services	9%	11%
Business Services	8	8
Oil and Gas	8	7
Printing and Publishing	8	9
Consumer Products	6	5
Electronics	6	8
Healthcare, Education and Childcare	6	7
Chemicals, Plastics and Rubber	5	6
Auto Sector	4	4
Energy/Utilities	4	5
Hotels, Motels, Inns and Gaming	4	8
Insurance	4	1
Media	4	
Buildings Materials	3	
Communication	3	3
Environmental Services	3	2
Other Media	3	5
Distribution	2	2
Diversified Natural Resources, Precious Metals and Minerals	2	2
Financial Services	2	
Mining, Steel, Iron and Non-Precious Metals	1	1
Retail	1	
Cargo Transport		1
Other	4	5
Total	100%	100%

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the

investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs 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.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

(Unaudited)

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

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data are available, such information may be the result of consensus pricing information 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. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. Within our fair value hierarchy table, our investments are generally categorized as first lien, second lien, subordinated debt and preferred and common equity investments. 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. During the three months ended December 31, 2013, our ability to observe valuation inputs has resulted in no reclassification of assets between any levels. During the three months ended December 31, 2012, our ability to observe valuation inputs resulted in one reclassification of assets between Level 3 to 2 with no other reclassification between levels.

In addition to using the above inputs in cash equivalents, investments, the 2025 Notes and our long-term 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, may not have 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, classified as Level 3, was 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 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)****DECEMBER 31, 2013****(Unaudited)**

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

Asset Category	Fair Value at December 31, 2013	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien, second lien, subordinated debt/corporate notes	\$ 385,823,905	Market Comparable	Broker/Dealer bid quotes	N/A
First lien, second lien, subordinated debt/corporate notes	634,983,742	Market Comparable	Market Yield	9.8% 17.5% (13.1%)
Preferred and common equity	118,871,345	Enterprise Market Value	EBITDA multiple	3.3 14.5 (8.4)
Total Level 3 investments	\$ 1,139,678,992			
Long-Term Credit Facility	\$ 228,000,000	Market Comparable	Discount rate	3.2%

Asset Category	Fair Value at September 30, 2013	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien, second lien, subordinated debt/corporate notes	\$ 448,842,468	Market Comparable	Broker/Dealer bid quotes	N/A
First lien, second lien, subordinated debt/corporate notes	466,571,947	Market Comparable	Market Yield	9.5% 21.5% (13.5%)
Preferred and common equity	110,923,751	Enterprise Market Value	EBITDA multiple	6.0 15.0 (9.0)
Total Level 3 investments	\$ 1,026,338,166			

Long-Term Credit Facility	\$ 117,500,000	Market Comparable	Discount rate	3.6%
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Our cash equivalents, investments, the 2025 Notes and Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes:

Description	Fair Value at December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Loan and debt investments	\$ 1,081,205,495	\$	\$ 60,397,848	\$ 1,020,807,647
Equity investments	128,075,927	8,932,323	272,259	118,871,345
Total investments	1,209,281,422	8,932,323	60,670,107	1,139,678,992
Cash and cash equivalents	30,803,635	30,803,635		
Total investments, cash and cash equivalents	\$ 1,240,085,057	\$ 39,735,958	\$ 60,670,107	\$ 1,139,678,992
Long-Term Credit Facility (excluding temporary draw of \$12,000,000)	\$ 228,000,000	\$	\$	\$ 228,000,000
2025 Notes	64,296,000	64,296,000		
Total debt	\$ 292,296,000	\$ 64,296,000	\$	\$ 228,000,000

Description	Fair Value at September 30, 2013			
	Fair Value	Level 1	Level 2	Level 3
Loan and debt investments	\$ 959,506,815	\$	\$ 44,092,400	\$ 915,414,415
Equity investments	118,668,738	7,539,320	205,667	110,923,751
Total investments	1,078,175,553	7,539,320	44,298,067	1,026,338,166
Cash and cash equivalents	58,440,829	58,440,829		
Total investments, cash and cash equivalents	\$ 1,136,616,382	\$ 65,980,149	\$ 44,298,067	\$ 1,026,338,166
Long-Term Credit Facility (excluding temporary draw of \$28,000,000)	\$ 117,500,000	\$	\$	\$ 117,500,000
2025 Notes	68,400,000	68,400,000		
Total debt	\$ 185,900,000	\$ 68,400,000	\$	\$ 117,500,000

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2013****(Unaudited)**

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

Description	Three months ended December 31, 2013		
	Loan and debt investments	Equity investments	Totals
Beginning Balance	\$ 915,414,415	\$ 110,923,751	\$ 1,026,338,166
Realized gains	3,942,358	27,862	3,970,220
Unrealized appreciation (depreciation)	28,198	(315,010)	(286,812)
Purchases, PIK, net discount accretion and non-cash exchanges	230,540,785	9,961,278	240,502,063
Sales, repayments and non-cash exchanges	(129,118,109)	(1,726,536)	(130,844,645)
Transfers in/out of Level 3			
Ending Balance	\$ 1,020,807,647	\$ 118,871,345	\$ 1,139,678,992
Net change in unrealized appreciation (depreciation) for the fiscal quarter 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	\$ 5,968,997	\$ (315,010)	\$ 5,653,987

Description	Three months ended December 31, 2012		
	Loan and debt investments	Equity investments	Totals
Beginning Balance	\$ 848,424,071	\$ 101,323,123	\$ 949,747,194
Realized gains (losses)	2,221,132	(1,350,000)	871,132
Unrealized appreciation (depreciation)	24,742,287	(19,387,772)	5,354,515
Purchases, PIK, net discount accretion and non-cash exchanges	168,081,857	25,652,726	193,734,583
Sales, repayments and non-cash exchanges	(141,014,536)	(700,000)	(141,714,536)
Transfers in/out of Level 3	(12,840,000)		(12,840,000)

Ending Balance	\$ 889,614,811	\$ 105,538,077	\$ 995,152,888
Net change in unrealized appreciation (depreciation) for the fiscal quarter 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	\$ 24,636,464	\$ (14,167,304)	\$ 10,469,160

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

Credit Facility	Carrying / Fair Value Three months ended December 31,	
	2013	2012
Beginning Balance (Cost \$117,500,000 and \$109,500,000, respectively)	\$ 117,500,000	\$ 108,952,500
Total unrealized depreciation included in earnings		547,500
Borrowings ⁽¹⁾	222,500,000	215,800,000
Repayments ⁽¹⁾	(112,000,000)	(113,800,000)
Transfers in and/or out of Level 3		
Ending Balance (Cost \$228,000,000 and \$211,500,000, respectively)	\$ 228,000,000	\$ 211,500,000
Temporary draws outstanding, at cost	12,000,000	28,000,000
Ending Balance (Cost \$240,000,000 and \$239,500,000, respectively)	\$ 240,000,000	\$ 239,500,000

⁽¹⁾ Excludes temporary draws.

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2013****(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 2025 Notes. We elected to use the fair value option for the Credit Facility and the 2025 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 2025 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 months ended December 31, 2013 and 2012, our Credit Facility and 2025 Notes had a net change in unrealized depreciation (appreciation) of \$4.1 million and \$(0.5) million, respectively. As of December 31, 2013 and September 30, 2013, net unrealized depreciation on our Credit Facility and 2025 Notes totaled \$7.0 million and \$2.9 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our 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 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 three months ended December 31, 2013 were as follows:

Name of Investment	Fair Value at September 30, 2013	Purchases of / Advances to Affiliates	Sale of / Distributions from Affiliates	Income Accrued	Fair Value December 31, 2013	Net Realized Gains (Losses)
Controlled Affiliates						
SuttonPark Holdings, Inc.	\$ 13,500,000	\$	\$	\$ 402,500	\$ 13,500,000	\$
Universal Pegasus International, LLC	17,552,044	8,769,838		1,291,786	27,556,881	
Superior Digital Displays Holdings, Inc.*		11,375,000			12,849,720	
Non-Controlled Affiliates						

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Direct Buy Holdings, Inc.	17,805,936	342,847	(1,126,015)	335,063	15,989,439
Envirosolutions Holdings, Inc.	21,265,345	9,127,448		22,932	32,264,379
PAS International Holdings, Inc.	1,694,296				523,407
NCP-Performance, L.P.	2,500,165				1,288,200
Service Champ, Inc.	33,470,058			906,616	34,381,849

Total Controlled and Non-Controlled Affiliates	\$ 107,787,844	\$ 29,615,133	\$ (1,126,015)	\$ 2,958,897	\$ 138,353,875	\$
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* Became a controlled affiliated portfolio company during quarter ended December 31, 2013.

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:

Class and Year	Three Months Ended December 31,	
	2013	2012
Numerator for net increase in net assets resulting from operations	\$ 39,454,953	\$ 28,541,186
Denominator for basic and diluted weighted average shares	66,546,219	66,174,302
Basic and diluted net increase in net assets resulting from operations per share	0.59	0.44

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2013****(Unaudited)****8. 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 December 31, 2013 and September 30, 2013, cash equivalents consisted of \$30.8 million and \$58.4 million, respectively.

9. FINANCIAL HIGHLIGHTS

Below are the financial highlights:

Three Months Ended December 31,

	2013	2012
Per Share Data:		
Net asset value, beginning of period	\$ 10.49	\$ 10.22
Net investment income ⁽¹⁾	0.27	0.28
Net realized and unrealized gain ⁽¹⁾	0.32	0.16
Net increase in net assets resulting from operations ⁽¹⁾	0.59	0.44
Distributions to stockholders ^{(1), (2)}	(0.28)	(0.28)
Net asset value, end of period	\$ 10.80	\$ 10.38
Per share market value, end of period	\$ 11.60	\$ 11.00
Total return* ⁽³⁾	5.38%	6.28%

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Shares outstanding at end of period	66,546,734	66,356,911
Ratios ** / Supplemental Data:		
Ratio of operating expenses to average net assets ⁽⁴⁾	6.66%	6.79%
Ratio of debt related expenses to average net assets to average net assets	2.55%	1.80%
Ratio of total expenses to average net assets	9.21%	8.59%
Ratio of net investment income to average net assets	10.03%	10.57%
Net assets at end of period	\$ 718,865,187	\$ 688,502,421
Weighted average debt outstanding ⁽⁵⁾	\$ 433,815,217	\$ 315,317,391
Weighted average debt per share ⁽⁵⁾	\$ 6.52	\$ 4.76
Asset coverage per unit at end of period ⁽⁶⁾	\$ 3,362	\$ 4,255
Portfolio turnover ratio **	50.16%	42.97%

* Not annualized for periods less than one year.

** Annualized for periods less than one year.

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

(2) Based on taxable income calculated in accordance with income tax regulations and may differ from amounts determined under GAAP.

(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) Operating expenses exclude 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.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

(Unaudited)

10. DEBT

Our annualized weighted average cost of debt for the three months ended December 31, 2013 and 2012, inclusive of the fee on the undrawn commitment on the Credit Facility and upfront fees on SBA debentures, was 4.20% and 3.93%, 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 \$430 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 December 31, 2013 and September 30, 2013, there was \$240.0 million (including a temporary draw of \$12.0 million) and \$145.5 million (including a temporary draw of \$28.0 million), respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.04% and 3.33%, exclusive of the fee on undrawn commitments of 0.50%. The Credit Facility is a four-year revolving facility with a stated maturity date of February 21, 2016, a one-year term-out period following its third year and pricing set at 275 basis points over LIBOR. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

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 December 31, 2013. 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, have a 10-year maturity, 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 SBIC LP may 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.

As of December 31, 2013 and September 30, 2013, our SBIC Funds had \$225.0 million and \$150.0 million in debt commitments, respectively, for each of which \$150.0 million were drawn with a weighted average interest rate of 3.70%, exclusive of 3.43% in upfront fees which are amortized over the life of the loan (4.04% after upfront fees).

Our fixed-rate SBA debentures as of December 31, 2013 and September 30, 2013 were as follows:

Issuance Dates	Maturity	Fixed All-in coupon rate	Principal Balance
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% ⁽¹⁾	\$ 150,000,000

⁽¹⁾All-in rate is 4.04% after 3.43% of upfront fees.

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 investing in certain industries, requiring capitalization thresholds and being 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). If our SBIC Funds fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit their use of debentures, declare outstanding debentures immediately due and payable and/or limit them from making new investments. These actions by the SBA would, in turn, negatively affect us because our SBIC Funds are wholly owned by us.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

(Unaudited)

2025 Notes

As of December 31, 2013, 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. We may redeem the 2025 Notes in whole or in part at any time or from time to time on or after February 1, 2016. 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 the assets pledged or secured under our Credit Facility.

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 investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on 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 December 31, 2013 and September 30, 2013, our maximum guaranty was \$11.5 million and \$13.0 million, respectively. 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.

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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 statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (the Company), including the consolidated schedule of investments, as of December 31, 2013 and the consolidated statements of operations, changes in net assets, and cash flows for the three months ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management.

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

New York, New York
February 5, 2014

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

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

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, 2013 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.

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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. 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.

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 May 2010 and July 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as SBICs, under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act, in July 2010 and January 2013, respectively. 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 distributions, 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, original issue discount, or OID, and market discount or premium are capitalized, and we accrete or amortize such amounts as 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.

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Expenses

Our primary operating expenses include the payment of management fees to our Investment Adviser, 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 and local 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.

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.

PORTFOLIO AND INVESTMENT ACTIVITY

As of December 31, 2013, our portfolio totaled \$1,209.3 million and consisted of \$320.6 million of senior secured loans, \$409.9 million of second lien secured debt, \$350.8 million of subordinated debt and \$128.0 million of preferred and common equity investments. Our debt portfolio consisted of 48% fixed-rate and 52% variable-rate investments (including 49% with a LIBOR or prime floor). Our overall portfolio consisted of 66 companies with an average investment size of \$18.3 million, had a weighted average yield on debt investments of 13.2% and was invested 26% in senior secured loans, 34% in second lien secured debt, 29% in subordinated debt and 11% in preferred and common equity investments.

As of September 30, 2013, our portfolio totaled \$1,078.2 million and consisted of \$299.5 million of senior secured loans, \$357.5 million of second lien secured debt, \$302.5 million of subordinated debt and \$118.7 million of preferred and common equity investments. Our debt portfolio consisted of 52% fixed-rate and 48% variable-rate investments (including 44% with a LIBOR or prime floor). Our overall portfolio consisted of 61 companies with an average investment size of \$17.7 million, had a weighted average yield on debt investments of 13.0% and was invested 28% in senior secured loans, 33% in second lien secured debt, 28% in subordinated debt and 11% in preferred and common equity investments.

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For the three months ended December 31, 2013, we invested \$228.0 million in nine new and seven existing portfolio companies with a weighted average yield on debt investments of 12.4%. Sales and repayments of investments for the three months ended December 31, 2013 totaled \$144.0 million.

For the three months ended December 31, 2012, we invested \$168.4 million in five new and seven existing portfolio companies with a weighted average yield on debt investments of 12.7%. Sales and repayments of investments for the three months ended December 31, 2012 totaled \$110.8 million.

CRITICAL ACCOUNTING POLICIES

The discussion of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles, or GAAP. The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from these estimates. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to Accounting Standards Codification, or ASC, serve as a single source of literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. Changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. 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 differ from our valuation and the difference could be material.

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 an investment. The independent valuation firms review management's preliminary valuations in light of its 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, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses the valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the independent valuation firms and the audit committee.

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Our investments generally consist of illiquid securities, including debt and equity investments. 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. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs 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 and our 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.

In addition to using the above inputs in cash equivalents, investments, the 2025 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.

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 2025 Notes. We elected to use the fair value option for the Credit Facility 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 2025 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 months ended December 31, 2013 and 2012, our Credit Facility and 2025 Notes had a net change in unrealized depreciation (appreciation) of \$4.1 million and \$(0.5) million, respectively. As of December 31, 2013 and September 30, 2013, net unrealized depreciation on our Credit Facility and 2025 Notes totaled \$7.0 million and \$2.9 million, respectively. We use a nationally recognized independent valuation service to fair value our Credit Facility in a manner consistent with the valuation process that the board of directors approves to value investments. Our 2025 Notes trade on the NYSE 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 contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest if 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 determine that it is probable that we will not be able to collect such interest. Loan origination fees, OID, market discount or premium and deferred financing costs are capitalized and we then accrete or amortize such amounts as interest income or expense, as applicable, using the effective interest method. We record contractual 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.

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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 portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

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 have not collected 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 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 net capital gains 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 net capital gain 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 months ended December 31, 2013 and 2012.

Investment Income

Investment income for the three months ended December 31, 2013 was \$34.4 million and was primarily attributable to \$9.6 million from senior secured loans, \$12.3 million from second lien secured debt investments, \$11.4 million from subordinated debt investments and \$1.1 million from common equity investments. Investment income for the three

months ended December 31, 2012 was \$33.0 million and was primarily attributable to \$8.8 million from senior secured loans, \$6.4 million from second lien secured debt investments and \$16.5 million from subordinated debt investments and \$1.3 million from common equity investments . The increase in investment income compared with the same period in the prior year is due to the growth of our portfolio.

Expenses

Expenses for the three months ended December 31, 2013 totaled \$16.5 million. Base management fees for the same period totaled \$5.7 million, incentive fees totaled \$4.5 million, debt related interest and expenses totaled \$4.6 million and general and administrative expenses totaled \$1.7 million. Expenses for the three months ended December 31, 2012 totaled \$14.8 million. Base management fees for the same period totaled \$5.1 million, incentive fees totaled \$4.5 million, debt related interest and expenses totaled \$3.1 million, general and administrative expenses and excise tax totaled \$2.1 million. The increase in expenses was primarily due to the higher cost of debt, which was partially offset by lower general and administrative expenses.

Net Investment Income

Net investment income totaled \$18.0 million, or \$0.27 per share, for the three months ended December 31, 2013, and \$18.2 million, or \$0.28 per share, for the three months ended December 31, 2012. The decrease in net investment income over the prior period was due to the higher cost of debt.

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Net Realized Gains or Losses

Sales and repayments of investments for the three months ended December 31, 2013 totaled \$144.0 million and realized gains totaled \$2.7 million. Sales and repayments of investments totaled \$110.8 million and net realized gains totaled \$0.9 million for the three months ended December 31, 2012. The increase in realized gains is due to a larger number of repayments of investments compared to the prior period.

Unrealized Appreciation or Depreciation on Investments, Credit Facility and 2025 Notes

For the three months ended December 31, 2013 and 2012 we reported a net unrealized appreciation on investments of \$14.7 million and \$10.0 million, respectively. As of December 31, 2013 and September 30, 2013, our net unrealized appreciation (depreciation) on investments totaled \$1.4 million and \$(13.3) million, respectively. The increase over the prior period was the result of changes in the market values of our investments offset by reversals of unrealized appreciation upon exiting our investments.

For the three months ended December 31, 2013 and 2012 we reported a net unrealized depreciation (appreciation) on our Credit Facility and 2025 Notes of \$4.1 million and \$(0.5) million, respectively. Net change in unrealized appreciation on the Credit Facility and 2025 Notes over the prior period was due to changes in the capital markets.

Net Increase in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled \$39.5 million, or \$0.59 per share, for the three months ended December 31, 2013. This compares to a net increase in net assets resulting from operations of \$28.5 million, or \$0.44 per share, for the three months ended December 31, 2012. The increase compared to the prior period was due to the continued growth of our portfolio and appreciation of our investments.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt 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 and proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

We have a \$430.0 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 December 31, 2013 and September 30, 2013, there was \$240.0 million (including a temporary draw of \$12.0 million) and \$145.5 million (including a temporary draw of \$28.0 million), respectively, in outstanding borrowings under the Credit Facility, with a weighted average interest rate at the time of 3.04% and 3.33%, respectively, exclusive of the fee on undrawn commitments of 0.50%. Our annualized weighted average cost of debt for the three months ended December 31, 2013 and 2012, inclusive of the fee on the undrawn commitment on the Credit Facility and upfront fees on SBA debentures, was 4.20% and 3.93%, respectively. The Credit Facility is a four-year revolving facility with a stated maturity date of February 2016, and a one-year term-out period following its third year. Borrowings under the Credit Facility bear interest at 275 basis points over LIBOR. As of December 31, 2013 and September 30, 2013, we had \$190.0 million and \$284.5 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.

The Credit Facility contains customary affirmative and restrictive covenants, including maintenance of a minimum stockholders' equity of the sum of (a) \$220.0 million plus (b) 25% of the net proceeds from the sale of equity interests in us and our subsidiaries after the closing date of the Credit Facility and maintenance of a ratio of total assets (less total liabilities other than indebtedness) to total indebtedness of not less than 2:1 (before any exemptive relief granted by the SEC with respect to the indebtedness of our SBIC subsidiaries). In addition to the asset coverage ratio described in the preceding sentence, borrowings under our Credit Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company's portfolio. For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on February 22, 2012 and the Credit Facility agreement filed as an exhibit to our Form 10-Q filed on May 2, 2012. As of December 31, 2013, we were in compliance with the terms of our Credit Facility.

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. We may redeem the 2025 Notes in whole or in part at any time or from time to time on or after February 1, 2016. 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 the assets pledged or secured under our Credit Facility. Our 2025 Notes trade on the NYSE under the symbol PNTA.

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We may raise additional equity or debt 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 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 or 2025 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 the three months ended December 31, 2013, 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 shareholder 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 had SBA debentures outstanding of \$150.0 million as of September 30, 2013. We have funded SBIC II with \$37.5 million of equity capital and 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, have a 10-year maturity, 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 SBIC LP may 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 million.

As of December 31, 2013 and September 30, 2013, our SBIC Funds had \$225.0 million and \$150 million in debt commitments, respectively, for each of which \$150 million were drawn with a weighted average interest rate of 3.70%, exclusive of 3.43% in upfront fees which are amortized over the life of the loan (4.04% after upfront fees). The SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%. Both fees will be amortized over the lives of the loans. Our fixed-rate SBA debentures as of December 31, 2013 and September 30, 2013 were as follows:

Issuance Dates	Maturity	Fixed All-in coupon rate (1)	Principal Balance
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

(2) All-in rate is 4.04% after 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 December 31, 2013, 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 December 31, 2013 and September 30, 2013, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. In June 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 December, 31, 2013 and September 30, 2013, we had cash and cash equivalents of \$30.8 million and \$58.4 million, respectively.

Our operating activities used cash of \$104.1 million for the three months ended December 31, 2013, primarily for net purchases of investments. Our financing activities provided cash of \$76.4 million for the same period, primarily from net borrowings under our Credit Facility.

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Our operating activities used cash of \$35.8 million for the three months ended December 31, 2012, primarily for net purchases of investments. Our financing activities provided cash of \$59.5 million for the same period, primarily from net borrowings under our Credit Facility and proceeds from our capital stock offering.

Contractual Obligations

A summary of our significant contractual payment obligations as of December 31, 2013, 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	\$ 240.0	\$	\$ 240.0	\$	\$
SBA debentures	150.0				150.0
2025 Notes	71.3				71.3
Total debt outstanding ⁽¹⁾	461.3		240.0		221.3
Unfunded investments ⁽²⁾	32.5	5.1	25.4		2.0
Total contractual obligations	\$ 493.8	\$ 5.1	\$ 265.4	\$	\$ 223.3

(1) The weighted average cost of debt on the total debt outstanding as of December 31, 2013 was 4.20% inclusive of the fee on the undrawn commitment of 0.50% on the Credit Facility and 3.43% of upfront fees on SBA debentures.

(2) Unfunded debt and equity investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on 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 2014, 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 2014, 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, technology systems, insurance 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 December 31, 2013 and September 30, 2013, our maximum guaranty was \$11.5 million and \$13.0 million, respectively. Based on SPH's and the industry's 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.

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Off-Balance-Sheet Arrangements

We currently engage in no off-balance-sheet arrangements, including any risk management of commodity pricing or other hedging practices.

Dividends and 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 our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) any net ordinary income and net capital gains 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, we may retain such net capital gains or ordinary income to provide us with additional liquidity. For the three months ended December 31, 2013, and 2012, we elected to retain a portion of our calendar year income and accrued estimated excise taxes.

During the three months ended December 31, 2013 and 2012, we declared dividends of \$0.28 per share or an aggregate of \$18.6 million for each of the periods. 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.

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 December 31, 2013, our debt portfolio consisted of 48% fixed-rate investments and 52% variable-rate investments (including 49% with a LIBOR or prime floor). 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%	\$ (2,042)	\$ (0.03)
Up 2%	\$ (445)	\$ (0.01)
Up 3%	\$ 2,709	\$ 0.04
Up 4%	\$ 5,864	\$ 0.09

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 fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in benefits of lower interest rates with respect to our portfolio of investments with fixed interest rates. 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 December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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, 2013, 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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

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).

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13(a) or 15(d) 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: February 5, 2014

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

(Principal Executive Officer)

Date: February 5, 2014

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

(Principal Financial and Accounting Officer)