

PENNANTPARK INVESTMENT CORP

Form 10-Q

May 02, 2012

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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 MARCH 31, 2012

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)

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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 type="checkbox"/>	Accelerated filer <input checked="" 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 May 2, 2012 was 56,367,339.

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PENNANTPARK INVESTMENT CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2012

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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 refers to PennantPark Investment Corporation and its consolidated subsidiaries unless the context suggests otherwise. PennantPark Investment refers to only PennantPark Investment Corporation; SBIC LP or our SBIC refers to our wholly owned consolidated small business investment company, or SBIC, subsidiary, PennantPark SBIC LP, and its general partner PennantPark SBIC GP, LLC, or SBIC GP; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC. References to our portfolio or investments include investments we make through all our consolidated subsidiaries. References to our Subsidiaries, refers to SBIC LP, SBIC GP and the Taxable Subsidiaries.

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

	March 31, 2012 (unaudited)	September 30, 2011
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value		
(cost \$850,864,770 and \$816,078,311, respectively)	\$ 838,697,179	\$ 773,375,381
Non-controlled, affiliated investments, at fair value		
(cost \$31,457,826 and \$36,744,425, respectively)	35,656,110	40,673,133
Controlled, affiliated investments, at fair value		
(cost \$14,500,100 and \$13,500,100, respectively)	14,500,002	13,500,001
Total Investments, at fair value (cost \$896,822,696 and \$866,322,836, respectively)	888,853,291	827,548,515
Cash equivalents (See Note 8)	26,964,225	71,604,519
Interest receivable	11,013,869	10,878,236
Receivable for investments sold	4,179,031	13,118,967
Prepaid expenses and other assets	4,895,013	5,587,977
Total assets	935,905,429	928,738,214
Liabilities		
Distributions payable	15,737,924	12,336,241
Payable for investments purchased	3,528,707	18,572,499
Unfunded investments	16,980,269	37,132,151
Credit facility payable (cost \$158,500,000 and \$240,900,000, respectively) (See Notes 5 and 10)	157,757,500	238,792,125
SBA debentures payable (cost \$150,000,000) (See Notes 5 and 10)	150,000,000	150,000,000
Interest payable on credit facility and SBA debentures	937,416	687,362
Management fee payable (See Note 3)	4,176,894	4,008,054
Performance-based incentive fee payable (See Note 3)	2,374,706	3,773,829
Accrued other expenses	1,104,368	778,757
Total liabilities	352,597,784	466,081,018
Net assets		
Common stock, 56,206,873 and 45,689,781 shares issued and outstanding, respectively.		
Par value \$0.001 per share and 100,000,000 shares authorized.	56,207	45,690
Paid-in capital in excess of par value	647,530,381	540,603,020
Undistributed net investment income	4,551,894	8,326,854
Accumulated net realized loss on investments	(61,603,932)	(49,651,922)
Net unrealized depreciation on investments	(7,969,405)	(38,774,321)
Net unrealized depreciation on credit facility	742,500	2,107,875
Total net assets	\$ 583,307,645	\$ 462,657,196

Total liabilities and net assets	\$ 935,905,429	\$ 928,738,214
Net asset value per share	\$ 10.38	\$ 10.13

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	\$ 24,310,488	\$ 20,836,197	\$ 48,330,912	\$ 39,395,362
Other	1,084,688	1,233,863	2,955,202	2,080,447
From non-controlled, affiliated investments:				
Interest	549,594	381,222	1,122,525	744,654
From controlled, affiliated investments:				
Interest	416,889	260,167	791,778	470,167
Total investment income	26,361,659	22,711,449	53,200,417	42,690,630
Expenses:				
Base management fee (See Note 3)	4,178,151	3,589,342	8,221,432	7,087,936
Performance-based incentive fee (See Note 3)	2,374,842	3,338,434	6,123,970	6,131,428
Interest and expenses on the credit facility and SBA debentures (See Note 10)	2,736,619	1,086,523	5,111,742	2,221,950
Administrative services expenses (See Note 3)	808,303	650,662	1,605,656	1,229,717
Other general and administrative expenses	897,849	847,668	1,740,194	1,531,027
Expenses before taxes and debt issuance costs	10,995,764	9,512,629	22,802,994	18,202,058
Excise tax (See Note 2)	245,000	39,857	280,000	158,824
Debt issuance costs (See Note 5)	5,361,319		5,361,319	
Total expenses	16,602,083	9,552,486	28,444,313	18,360,882
Net investment income	9,759,576	13,158,963	24,756,104	24,329,748
Realized and unrealized (loss) gain on investments and credit facility:				
Net realized (loss) gain on investments	(3,922,455)	286,452	(11,952,011)	2,579,813
Net change in unrealized appreciation (depreciation) on:				
Non-controlled, non-affiliated investments	22,470,558	4,711,487	30,535,339	23,464,360
Controlled & non-controlled, affiliated investments	(1,692,070)	128,906	269,576	38,735
Credit facility unrealized (appreciation) (See Notes 5 and 10)	(217,500)	(4,698,821)	(1,365,375)	(11,303,446)
Net change in unrealized appreciation	20,560,988	141,572	29,439,540	12,199,649
Net realized and unrealized gain from investments and credit facility	16,638,533	428,024	17,487,529	14,779,462
Net increase in net assets resulting from operations	\$ 26,398,109	\$ 13,586,987	\$ 42,243,633	\$ 39,109,210
Net increase in net assets resulting from operations per common share (See Note 7)	\$ 0.50	\$ 0.33	\$ 0.85	\$ 1.01

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Net investment income per common share	\$	0.18	\$	0.32	\$	0.50	\$	0.63
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SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31,	
	2012	2011
Net increase in net assets from operations:		
Net investment income	\$ 24,756,104	\$ 24,329,748
Net realized (loss) gain on investments	(11,952,011)	2,579,813
Net change in unrealized appreciation on investments	30,804,915	23,503,095
Net change in unrealized appreciation on credit facility	(1,365,375)	(11,303,446)
Net increase in net assets resulting from operations	42,243,633	39,109,210
Distributions to stockholders:		
Distributions from net investment income	(28,531,062)	(21,704,559)
Capital share transactions:		
Public offering	109,192,500	114,080,000
Offering costs relating to public offering	(3,979,000)	(5,743,800)
Reinvestment of dividends	1,724,378	1,703,764
Total increase in net assets	120,650,449	127,444,615
Net assets:		
Beginning of period	462,657,196	386,575,223
End of period	\$ 583,307,645	\$ 514,019,838
Undistributed net investment income, at period end	\$ 4,551,894	\$ 4,584,659
Capital share activity:		
Public offering	10,350,000	9,200,000
Shares issued from reinvestment of dividends	167,092	146,160
Total shares issued	10,517,092	9,346,160

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 42,243,633	\$ 39,109,210
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used) by operating activities:		
Net change in unrealized appreciation on investments	(30,804,915)	(23,503,095)
Net change in unrealized appreciation on credit facility	1,365,375	11,303,446
Net realized loss (gain) on investments	11,952,011	(2,579,813)
Net accretion of discount and amortization of premium	(5,784,489)	(3,219,842)
Purchase of investments	(153,884,038)	(196,549,024)
Payment-in-kind income	(6,136,921)	(5,181,586)
Proceeds from dispositions of investments	118,544,142	137,107,533
(Increase) Decrease in interest receivable	(135,633)	1,237,227
Decrease in receivables for investments sold	8,939,936	30,254,774
Decrease in prepaid expenses and other assets	692,964	502,446
(Decrease) in payables for investments purchased	(15,043,792)	(40,410,000)
(Decrease) in unfunded investments	(15,342,447)	(3,569,562)
Increase in interest payable on credit facility and SBA debentures	250,054	77,379
Increase in management fee payable	168,840	302,526
(Decrease) Increase in performance-based incentive fee payable	(1,399,124)	1,099,423
Increase (Decrease) in accrued other expenses	325,610	(452,070)
Net cash (used) by operating activities	(44,048,794)	(54,471,028)
Cash flows from financing activities:		
Public offering	109,192,500	114,080,000
Offering costs related to public offering	(3,979,000)	(5,743,800)
Distributions paid to stockholders, net of dividends reinvested	(23,405,000)	(17,115,744)
Borrowings under SBA debentures (See Note 10)		45,000,000
Capitalized borrowing costs		(1,756,250)
Borrowings under credit facility (See Note 10)	695,500,000	200,300,000
Repayments under credit facility (See Note 10)	(777,900,000)	(280,561,200)
Net cash (used) provided by financing activities	(591,500)	54,203,006
Net (decrease) in cash equivalents	(44,640,294)	(268,022)
Cash equivalents, beginning of period	71,604,519	1,814,451
Cash equivalents, end of period	\$ 26,964,225	\$ 1,546,429
Supplemental disclosure of cash flow information and non-cash financing activity (See Note 5):		
Interest paid	\$ 4,285,855	\$ 1,826,073
Income taxes paid	\$ 258,550	\$ 123,824

Dividends reinvested	\$ 1,724,378	\$ 1,703,764
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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

MARCH 31, 2012

(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 143.8%^{(1),(2)}							
First Lien Secured Debt 45.2%							
American Surgical Holdings, Inc.	03/23/2015	Healthcare, Education and Childcare	14.00%	L+1,000 ⁽⁷⁾	19,250,000	\$ 18,783,191	\$ 19,250,000
Brand Energy and Infrastructure Services, Inc.	02/07/2014	Energy / Utilities	3.76%	L+325	2,000,000	1,677,320	1,851,000
CEVA Group PLC ^{(5),(9)}	10/01/2016	Logistics	11.63%		7,500,000	7,341,591	7,950,000
CEVA Group PLC ^{(5),(9)}	04/01/2018	Logistics	11.50%		1,000,000	989,464	990,000
Columbus International, Inc. ^{(5),(9)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,095,000
Good Sam Enterprises, LLC ⁽⁵⁾	12/01/2016	Consumer Products	11.50%		12,000,000	11,777,014	12,360,000
Hanley-Wood, L.L.C.	01/13/2017	Other Media	8.00%	L+650 ⁽⁷⁾	1,761,727	1,761,727	1,761,727
IDQ Holdings, Inc. ⁽⁵⁾	04/01/2017	Auto Sector	11.50%		11,500,000	11,270,580	11,787,500
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁷⁾	24,500,000	24,015,996	24,990,000
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950 ⁽⁷⁾	18,762,500	18,353,870	18,921,981
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.61%	L+225	9,635,135	9,635,135	5,331,438
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675 ⁽⁷⁾	18,952,500	18,097,866	18,762,975
Kadmon Pharmaceuticals, LLC	10/31/2012	Healthcare, Education and Childcare	15.00%	L+1,300 ⁽⁷⁾	4,981,188	4,965,097	5,055,906
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,600,462	25,466,448
Penton Media, Inc.	08/01/2014	Other Media	5.00%	L+400 ⁽⁷⁾	37,772,126	33,106,023	29,950,160
(PIK 1.00%)							
Pre-Paid Legal Services, Inc., Tranche A	12/30/2016	Personal, Food and Miscellaneous Services	7.50%	L+600 ⁽⁷⁾	1,796,748	1,771,633	1,733,862
Pre-Paid Legal Services, Inc., Tranche B	12/30/2016	Personal, Food and Miscellaneous Services	11.00%	L+950 ⁽⁷⁾	35,000,000	34,053,237	33,950,000
Questex Media Group LLC ⁽⁸⁾	12/16/2012	Other Media			133,603	133,603	133,603
Tekelec Global Inc. (First Out)	01/29/2018	Telecommunications	9.00%	L+750 ⁽⁷⁾	4,250,000	4,187,709	4,250,000
Tekelec Global Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200 ⁽⁷⁾	10,625,000	10,320,982	10,625,000
UP Support Services, Inc.	02/08/2013	Oil and Gas	9.50%	L+800 ⁽⁷⁾	14,319,391	11,201,685	11,127,896
(PIK 0.75%)							

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UP Support Services, Inc. ⁽⁸⁾	02/08/2013	Oil and Gas		⁽⁷⁾	1,916,666	1,532,977	1,489,481
Yonkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels,	11.38%		4,500,000	4,396,222	4,826,250
		Inns and Gaming					

Total First Lien Secured Debt 264,973,384 263,660,227

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****MARCH 31, 2012****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par/ Shares	Cost	Fair Value ⁽³⁾
Second Lien Secured Debt 26.8%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.58 %	L+600	13,600,000	\$ 13,333,203	\$ 11,356,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.55 %	L+700	12,000,000	11,837,896	10,392,000
DirectBuy Holdings, Inc. ^{(5), (6)}	02/01/2017	Consumer Products	12.00 %		34,000,000	31,964,124	6,460,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy/Utilities	12.50%		46,000,000	45,629,410	47,495,000
			(PIK 2.75%)				
Eureka Hunter Pipeline, LLC ⁽⁸⁾	08/16/2012	Energy/Utilities			4,000,000	3,900,000	4,130,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00%	L+700 ⁽⁷⁾	3,018,217	3,018,220	2,822,033
			(PIK 11.00%)				
Paradigm Management Services, LLC	07/31/2017	Healthcare, Education and Childcare	12.50%	L+1,000 ⁽⁷⁾	20,512,821	20,013,680	20,512,821
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 ⁽⁷⁾	2,955,232	2,955,232	2,742,455
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50 %	L+750 ⁽⁷⁾	2,107,105	2,107,105	1,860,574
			(PIK 11.50%)				
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,260,710
ROC Finance LLC and ROC Finance 1 Corp.	09/01/2018	Hotels, Motels, Inns and Gaming	12.13%		16,000,000	15,741,814	17,840,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	5.99%	L+575	13,500,000	12,046,148	13,083,755
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.25%	L+600	7,811,488	7,468,552	7,303,741
Total Second Lien Secured Debt						180,015,384	156,259,089
Subordinated Debt/Corporate Notes 60.6%							
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	18,525,557	18,525,000
Affinion Group Holdings, Inc.	11/15/2015	Consumer Products	11.63%		35,552,000	34,084,352	32,174,560
Diversitech Corporation	01/29/2017	Manufacturing/Basic Industry	13.50%		11,000,000	10,792,285	11,192,500
			(PIK 2.00%)				
Escort, Inc.	06/01/2016	Electronics	14.75%		24,904,672	24,350,195	24,904,672
			(PIK 2.75%)				
Galls, LLC; Quartermaster Inc.	03/31/2017	Distribution	13.00 %		21,580,914	21,152,375	21,580,914
JF Acquisition, LLC	12/30/2017	Distribution	14.00%		17,000,000	16,545,371	16,575,000

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Last Mile Funding, Corp.	06/30/2016	Cargo Transport	(PIK 2.00%) 14.50%	45,023,152	44,045,590	44,482,874
Learning Care Group (US) Inc.	06/30/2016	Education	(PIK 2.50%) 15.00%	4,909,506	4,278,793	4,455,377
LTI Flexible Products, Inc.	01/26/2017	Chemical, Plastic and Rubber	(PIK 15.00%) 13.88%	34,262,227	33,469,743	34,947,472
Mailsouth, Inc.	06/15/2017	Printing and Publishing	(PIK 1.88%) 14.50%	15,000,000	14,609,296	15,000,000
MedQuist, Inc.	10/14/2016	Business Services	(PIK 2.00%) 13.00%	19,000,000	18,526,226	19,997,500
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	(PIK 2.00%) 15.02%	17,123,218	16,758,032	16,849,247
Prince Mineral Holdings Corp.	12/03/2016	Mining, Steel, Iron and Non-Precious Metals	(PIK 2.02%) 13.50%	26,431,541	25,961,026	26,431,541
Realogy Corp.	04/15/2018	Buildings and Real Estate	(PIK 2.00%) 11.00%	10,000,000	9,201,906	8,000,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00%	12,020,950	11,685,601	12,020,950
UP Support Services Inc.	02/08/2015	Oil and Gas	(PIK 2.50%) 19.50%	29,152,826	29,114,234	19,532,393
Veritext Corp.	12/31/2015	Business Services	(PIK 19.50%) 14.00%	16,200,000	15,883,636	16,200,000
Veritext Corp. ⁽⁸⁾	12/31/2012	Business Services	(PIK 3.00%)	10,800,000	10,530,000	10,800,000
Total Subordinated Debt/Corporate Notes					359,514,218	353,670,000

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****MARCH 31, 2012****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par/ Shares	Cost	Fair Value (3)
Preferred Equity/Partnership Interests 1.3%⁽⁷⁾							
AH Holdings, Inc. (American Surgical Holdings, Inc.)		Healthcare, Education and Childcare	6.00%		211	\$ 500,000	\$ 623,379
AHC Mezzanine, LLC (Advanstar, Inc.)		Other Media			7,505	318,896	
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media	8.00%		3,591	24,177	25,868
CI (IHS) Investment Holdings, LLC		Healthcare, Education and Childcare	8.00%		76,357	765,307	980,762
CI (IHS) Investment Holdings, LLC ⁽⁸⁾		Healthcare, Education and Childcare			38,179	382,654	
PAS Tech Holdings, Inc., Series A-1 (PAS Technologies, Inc.)		Aerospace and Defense	8.00%		20,000	1,980,000	1,421,407
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,623,922
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas	8.00%		101,175	2,738,050	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation	8.00%		1,824,167	1,824,167	2,061,678
Total Preferred Equity/Partnership Interests						10,531,077	7,422,836
Common Equity/Warrants/Partnership Interests 9.9%⁽⁷⁾							
Acentia, LLC, Class A Units ⁽¹²⁾		Electronics			1,998	2,000,000	2,000,000
AH Holdings, Inc. (American Surgical Holdings, Inc.) (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		2,092,725
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			1,333	3,000,000	
CI (Galls) Prime Investment Holdings, LLC (Galls, LLC; Quartermaster Inc.) ⁽¹¹⁾		Distribution			1,505,000	1,505,000	1,505,000
CI (IHS) Investment Holdings, LLC		Healthcare, Education and Childcare			23,416	234,693	300,781
CI (IHS) Investment Holdings, LLC ⁽⁸⁾		Healthcare, Education and Childcare			11,708	117,346	
CT Technologies Holdings, LLC		Business Services			5,556	2,277,209	6,456,840
DirectBuy Investors, L.P.		Consumer Products			30,000	1,350,000	
HW Topco, Inc. (Hanley-Wood, LLC)		Other Media			348,912	2,443,050	2,394,070
Kadmon Holdings, LLC, Class A		Healthcare, Education and Childcare			1,079,920	1,236,832	10,802,578
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			1,267	779,920	

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Magnum Hunter Resources Corporation (Eureka Hunter Pipeline, LLC)		Oil and Gas	1,221,932	3,239,999	7,832,584
Magnum Hunter Resources Corporation (Warrants) (Eureka Hunter Pipeline, LLC)	10/14/2013	Oil and Gas	122,193	105,697	129,209
MidOcean JF Holdings Corp. (JF Acquisition, LLC)		Distribution	1,700	1,700,000	1,515,631
MidOcean PPL Holdings, Inc. (Pre-Paid Legal Services, Inc.)		Personal, Food and Miscellaneous Services	3,000	3,000,000	3,898,882
Paradigm Acquisition Corp. (Paradigm Management Services, LLC)		Healthcare, Education and Childcare	20,000	2,000,000	2,000,000
PAS Tech Holdings, Inc. (PAS Technologies, Inc.)		Aerospace and Defense	20,000	20,000	
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media	4,325	1,306,167	2,349,899
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media	531		288,508
Titan Private Holdings I, LLC Class A (Tekelec Global, Inc.)		Telecommunications	2,276,847	2,274,883	2,276,847
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services	3,500	29,400	863,190
Transportation 100 Holdco, L.L.C. ⁽¹⁰⁾ (Greatwide Logistics Services, L.L.C.)		Cargo Transport	137,923	2,111,588	
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance	2	9,843	1,768,884
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas	110,742	1,107	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation	9,166	9,166	10,359
VText Holdings, Inc. (Veritext Corp.)		Business Services	35,526	4,050,000	8,170,233
Total Common Equity/Warrants/Partnership Interests				35,830,707	57,685,027
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies				850,864,770	838,697,179

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****MARCH 31, 2012****(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 6.1%^{(1),(2)}							
Second Lien Secured Debt 2.0%							
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600 ⁽⁷⁾	4,402,812	\$ 4,402,812	\$ 4,402,812
Performance, Inc.	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625 ⁽⁷⁾	8,000,000	8,000,000	7,424,000
Total Second Lien Secured Debt						12,402,812	11,826,812
Subordinated Debt/Corporate Notes 1.2%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00%	(PIK 15.00%)	7,293,719	7,148,244	6,965,502
Common Equity/Partnership Interest 2.9%⁽⁶⁾							
EnviroSolutions, Inc.		Environmental Services			103,450	8,156,770	15,546,685
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000	1,317,111
Total Common Equity/Partnership Interest						11,906,770	16,863,796
Total Investments in Non-Controlled, Affiliated Portfolio Companies						31,457,826	35,656,110
Investments in Controlled, Affiliated Portfolio Companies 2.5%^{(1),(2)}							
First Lien Secured Debt 1.8%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%		10,000,000	10,000,000	10,501,510
Subordinated Debt/Corporate Notes 0.4%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00%		2,500,000	2,500,000	2,273,155
Preferred Equity 0.3%⁽⁶⁾							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,725,337
Common Equity 0.0%⁽⁶⁾							
SuttonPark Holdings, Inc.		Business Services			100	100	
Total Investments in Controlled, Affiliated Portfolio Companies						14,500,100	14,500,002

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Total Investments 152.4%	896,822,696	888,853,291
Cash Equivalents 4.6%	26,964,225	26,964,225
Total Investments and Cash Equivalents 157.0%	\$ 923,786,921	\$ 915,817,516
Liabilities in Excess of Other Assets (57.0%)		(332,509,871)
Net Assets 100.0%		\$ 583,307,645

- (1) The provisions of the Investment Company Act of 1940, as amended, or 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.
- (3) Valued based on our accounting policy (see Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or L, or Prime Rate, or Prime or P.
- (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, usually to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is subject to a LIBOR or Prime rate floor.
- (8) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.
- (9) Non-U.S. company or principal place of business outside the United States.
- (10) Investment is held through PNNT Transportation 100 Holdco, LLC, a consolidated subsidiary.
- (11) Investment is held through PNNT CI (GALLS) Prime Investments Holdings, LLC, a consolidated subsidiary.
- (12) Investment is held through PNNT Acentia, LLC, a consolidated subsidiary.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2011**

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 167.2% ^{(1),(2)}							
First Lien Secured Debt 60.6%							
American Surgical Holdings, Inc.	03/23/2015	Healthcare, Education and Childcare	14.00%	L+1,000 ⁽⁸⁾	20,300,000	\$ 19,748,930	\$ 20,300,000
CEVA Group PLC ^{(5), (10)}	10/01/2016	Logistics	11.63%		7,500,000	7,328,729	7,331,250
CEVA Group PLC ^{(5), (10)}	04/01/2018	Logistics	11.50%		1,000,000	988,872	920,000
Chester Downs and Marina, LLC	07/29/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 ⁽⁸⁾	11,358,254	11,024,166	11,310,924
Columbus International, Inc. ^{(5), (10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	9,800,000
Covad Communications Group, Inc. ⁽⁵⁾	11/03/2015	Telecommunications	12.00%	L+1,000 ⁽⁸⁾	6,475,000	6,362,696	6,345,500
Good Sam Enterprises, LLC ⁽⁵⁾ (f/k/a Affinity Group Holdings Inc.)	12/01/2016	Consumer Products	11.50%		12,000,000	11,759,625	11,220,000
Hanley-Wood, L.L.C.	03/10/2014	Other Media	2.56%	L+225	8,662,500	8,662,500	4,222,969
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	24,625,000	24,227,464	25,683,875
Interactive Health Solutions, Inc.	10/04/2016	Healthcare, Education and Childcare	11.50%	L+950 ⁽⁸⁾	19,000,000	18,572,500	18,572,500
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.51%	L+225	9,671,622	9,671,622	6,866,851
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675 ⁽⁸⁾	18,952,500	18,002,959	18,004,875
Kadmon Pharmaceuticals, LLC (f/k/a Three Rivers Pharmaceutical, L.L.C.)	10/22/2011	Healthcare, Education and Childcare	15.00%	L+1,300 ⁽⁸⁾	29,066,987	27,940,332	30,811,006
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,555,967	25,401,316
Penton Media, Inc.	08/01/2014	Other Media	5.00% ⁽⁶⁾	L+400 ⁽⁸⁾	37,779,699	32,241,162	26,130,971
Prepaid Legal Services, Inc., Tranche A	12/30/2016	Personal, Food and Miscellaneous Services	7.50% ⁽⁶⁾	L+600 ⁽⁸⁾	2,000,000	1,970,966	1,900,000
Prepaid Legal Services, Inc., Tranche B	12/30/2016	Personal, Food and Miscellaneous Services	11.00% ⁽⁶⁾	L+950 ⁽⁸⁾	35,000,000	33,978,263	33,250,000
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+550 ⁽⁸⁾	26,721	26,721	26,721
Questex Media Group LLC ⁽⁹⁾	12/16/2012	Other Media			240,485	240,485	240,485
VPSI, Inc.	12/23/2015	Personal Transportation	12.00%	L+1,000 ⁽⁸⁾	17,302,083	17,047,133	17,215,572
Yonkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,391,231	4,590,000
Total First Lien Secured Debt						289,742,323	280,144,815

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2011**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par/Shares	Cost	Fair Value ⁽³⁾
Second Lien Secured Debt 32.9%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.30%	L+600	13,600,000	\$ 13,300,431	\$ 11,832,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.33%	L+700	12,000,000	11,821,275	10,680,000
DirectBuy Holdings, Inc. ⁽⁵⁾	02/01/2017	Consumer Products	12.00%		34,000,000	31,944,865	10,710,000
Eureka Hunter Pipeline, LLC	08/16/2018	Energy / Utilities	12.50% ⁽⁶⁾		31,000,000	31,000,000	31,000,000
Eureka Hunter Pipeline, LLC ⁽⁹⁾	08/15/2012	Energy / Utilities			19,000,000	18,525,000	18,525,000
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% ⁽⁶⁾	L+700 ⁽⁸⁾	2,860,871	2,860,871	2,860,871
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 ⁽⁸⁾	2,971,450	2,971,450	2,692,134
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% ⁽⁶⁾	L+750 ⁽⁸⁾	1,990,370	1,990,370	1,737,593
RAM Energy Resources, Inc.	09/13/2016	Oil and Gas	11.00%	L+900 ⁽⁸⁾	17,000,000	16,672,749	16,830,000
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	9,760,000
ROC Finance LLC and ROC Finance 1 Corp.	09/01/2018	Hotels, Motels, Inns and Gaming	12.13%		16,000,000	15,726,668	16,160,000
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.07% ⁽⁶⁾	L+575	13,500,000	11,856,253	12,521,250
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.24% ⁽⁶⁾	L+600	7,811,488	7,422,480	6,756,937
Total Second Lien Secured Debt						\$ 176,092,412	152,065,785
Subordinated Debt/Corporate Notes 65.0%							
Affinion Group Holdings, Inc. ⁽⁵⁾	11/15/2015	Consumer Products	11.63%		26,345,000	26,391,240	20,285,650
Aquilex Holdings, LLC ⁽⁵⁾	12/15/2016	Diversified / Conglomerate Services	11.13%		18,885,000	18,440,262	8,309,400
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% ⁽⁶⁾		8,109,468	7,997,216	8,109,468
Diversitech Corporation	01/29/2017	Manufacturing / Basic Industry	13.50% ⁽⁶⁾		11,000,000	10,783,491	10,780,000
Escort, Inc.	06/01/2016	Electronics	14.75% ⁽⁶⁾		24,560,142	23,964,150	24,314,541
Last Mile Funding, Corp.	06/30/2016	Cargo Transport	14.50% ⁽⁶⁾		44,456,391	43,380,579	43,344,981
Learning Care Group (US) Inc.	06/30/2016	Education	15.00% ⁽⁶⁾		4,566,982	3,891,689	4,133,119
LTI Flexible Products, Inc.	01/26/2017	Chemical, Plastic and Rubber	13.88% ⁽⁶⁾		33,937,985	33,119,280	33,768,295
Mailsouth, Inc.	06/15/2017	Printing and Publishing	14.50% ⁽⁶⁾		15,000,000	14,579,991	14,640,000
MedQuist, Inc.	10/14/2016	Business Services	13.00% ⁽⁶⁾		19,000,000	18,492,685	19,950,000
PAS Technologies, Inc.	05/12/2017	Aerospace and Defense	14.02% ⁽⁶⁾		16,785,000	16,400,403	16,600,365
Prince Mineral Holdings Corp.	12/03/2016	Mining, Steel, Iron and Non-Precious Metals	13.50% ⁽⁶⁾		26,169,195	25,667,843	25,645,811
Realogy Corp.	04/15/2018	Buildings and Real Estate	11.00%		10,000,000	9,159,259	7,800,000
TRAK Acquisition Corp.	12/29/2015	Business Services	15.00% ⁽⁶⁾		12,020,950	11,683,548	11,984,887
UP Support Services Inc.	02/08/2015	Oil and Gas	19.00% ⁽⁶⁾		26,276,070	26,063,224	24,173,984
Veritext Corp.	12/31/2015	Business Services	14.00% ⁽⁶⁾		15,000,000	14,686,238	15,000,000
Veritext Corp. ⁽⁹⁾	12/31/2012	Business Services			12,000,000	11,700,000	12,000,000
Total Subordinated Debt/Corporate Notes						316,401,098	300,840,501

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Value (3)
Preferred Equity/Partnership Interests 1.7%							
AH Holdings, Inc. (American Surgical Holdings, Inc.)		Healthcare, Education and Childcare	6.00%		211	\$ 500,000	\$ 491,004
AHC Mezzanine, LLC (Advanstar Inc.)		Other Media			7505	318,896	
CFHC Holdings, Inc., Class A (Consolidated Foundries, Inc.)		Aerospace and Defense	12.00%		909	909,248	1,328,977
PAS Tech Holdings, Inc., Series A-1 (PAS Technologies, Inc.)		Aerospace and Defense	8.00%		20,000	1,980,000	2,026,969
TZ Holdings, L.P., Series A (Trizetto Group, Inc.)		Insurance			686	685,820	685,820
TZ Holdings, L.P., Series B (Trizetto Group, Inc.)		Insurance	6.50%		1,312	1,312,006	1,581,165
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas	8.00%		101,175	2,738,050	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation	8.00%		1,824,167	1,824,167	1,911,003
Total Preferred Equity/Partnership Interests						10,268,187	8,024,938
Common Equity/Warrants/Partnership Interests 7.0%							
AH Holdings, Inc. (American Surgical Holdings, Inc.) (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		
CEA Autumn Management, L.L.C.		Broadcasting and Entertainment			1,333	3,000,000	280,176
CFHC Holdings, Inc. (Consolidated Foundries, Inc.)		Aerospace and Defense			1,856	18,556	1,443,556
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	2,277,209	8,431,871
DirectBuy Investors, L.P.		Consumer Products			30,000	1,350,000	469,500
Kadmon Corporation, LLC, Class A (f/k/a Kadmon Holdings, LLC) (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,236,832	295,205
Kadmon Corporation, LLC, Class D (f/k/a Kadmon Holdings, LLC) (Kadmon Pharmaceuticals, LLC)		Healthcare, Education and Childcare			1,079,920	1,028,807	1,028,807
Learning Care Group (US) Inc. (Warrants)	04/27/2020	Education			1,267	779,920	112,064
Magnum Hunter Resources Corporation		Oil and Gas			1,221,932	3,239,999	4,044,595
Magnum Hunter Resources Corporation (Warrants)	10/14/2013	Oil and Gas			122,193	105,697	61,091
MidOcean PPL Holdings, Inc. (Pre-Paid LegalServices, Inc.)		Personal, Food and Miscellaneous Services			3,000	3,000,000	3,320,146
PAS Tech Holdings, Inc. (PAS Technologies, Inc.)		Aerospace and Defense			20,000	20,000	101,931
QMG HoldCo, LLC, Class A (Questex Media Group, Inc.)		Other Media			4,325	1,306,167	1,352,585
QMG HoldCo, LLC, Class B (Questex Media Group, Inc.)		Other Media			531		166,063
TRAK Acquisition Corp. (Warrants)	12/29/2019	Business Services			3,500	29,400	577,061
Transportation 100 Holdco, L.L.C. (Greatwide Logistics Services, L.L.C.)		Cargo Transport			137,923	2,111,588	1,521,406
TZ Holdings, L.P. (Trizetto Group, Inc.)		Insurance			2	9,843	1,591,505
Universal Pegasus International, Inc. (UP Support Services, Inc.)		Oil and Gas			110,742	1,107	
Verde Parent Holdings, Inc. (VPSI, Inc.)		Personal Transportation			9,166	9,166	

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Vtext Holdings, Inc. (Veritext Corp.)	Business Services	35,526	4,050,000	7,501,780
Total Common Equity/Warrants/Partnership Interests			23,574,291	32,299,342
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies			816,078,311	773,375,381

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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 8.8%^{(1),(2)}							
First Lien Secured Debt 1.4%							
EnviroSolutions, Inc. ⁽⁹⁾	07/29/2013	Environmental Services			6,666,666	\$ 6,666,666	\$ 6,666,666
Second Lien Secured Debt 2.9%							
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600 ⁽⁸⁾	5,870,416	5,870,416	5,870,416
Performance, Inc.	01/16/2015	Leisure, Amusement Motion Pictures and Entertainment	7.25%	L+625 ⁽⁸⁾	8,000,000	8,000,000	7,336,000
Total Second Lien Secured Debt						13,870,416	13,206,416
Subordinated Debt/Corporate Notes 1.4%							
Performance Holdings, Inc.	07/16/2015	Leisure, Amusement, Motion Pictures and Entertainment	15.00% ⁽⁶⁾		6,775,991	6,617,860	6,403,311
Common Equity/Partnership Interest 3.1%⁽⁷⁾							
EnviroSolutions, Inc.		Environmental Services			37,382	2,710,036	5,641,925
EnviroSolutions, Inc. (Warrants)		Environmental Services			50,102	3,129,447	7,561,205
NCP-Performance (Performance Holdings, Inc.)		Leisure, Amusement, Motion Pictures and Entertainment			375,000	3,750,000	1,193,610
Total Common Equity/Partnership Interest						9,589,483	14,396,740
Total Investments in Non-Controlled, Affiliated Portfolio Companies						36,744,425	40,673,133
Investments in Controlled, Affiliated Portfolio Companies 2.9%^{(1),(2)}							
First Lien Secured Debt 2.1%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		9,200,000	9,200,000	9,676,650
Subordinated Debt/Corporate Notes 0.5%							
SuttonPark Holdings, Inc.	06/30/2020	Business Services	14.00% ⁽⁶⁾		2,300,000	2,300,000	2,085,357
Preferred Equity 0.4%⁽⁷⁾							
SuttonPark Holdings, Inc.		Business Services	14.00%		2,000	2,000,000	1,737,994
Common Equity 0.0%⁽⁷⁾							
SuttonPark Holdings, Inc.		Business Services			100	100	
Total Investments in Controlled, Affiliated Portfolio Companies						13,500,100	13,500,001

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Total Investments	178.9%		866,322,836	827,548,515
Cash Equivalents	15.5%	71,604,519	71,604,519	71,604,519
Total Investments and Cash Equivalents	194.3%		\$ 937,927,355	\$ 899,153,034
Liabilities in Excess of Other Assets	(94.3%)			(436,495,838)
Net Assets	100.0%			\$ 462,657,196

- (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.
- (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 Prime 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, usually to qualified institutional buyers.
- (6) Coupon is payable in cash and/or through PIK.
- (7) Non-income producing securities.
- (8) Coupon is subject to a LIBOR or Prime rate floor.
- (9) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.
- (10) Non-U.S. company or principal place of business outside the United States.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

(Unaudited)

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation on January 11, 2007. PennantPark Investment is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the 1940 Act. PennantPark Investment's objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and equity investments.

On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol PNNT. We completed our initial public offering of common stock in 2007 and issued 21.0 million shares raising \$294.1 million in net proceeds. Since our initial public offering, we have sold 34.6 million shares of common stock through follow-on public offerings, resulting in net proceeds of \$347.7 million. During the three months ended March 31, 2012, we sold approximately 10.4 million shares in a follow-on public offering, resulting in net proceeds of \$105.2 million, after estimated offering costs.

We are externally managed by PennantPark Investment Advisers. PennantPark Investment Administration provides the administrative services necessary for us to operate.

SBIC LP and its general partner, SBIC GP, were organized in Delaware as a limited partnership and a limited liability company, respectively, in May 2010 and began operations in June 2010. SBIC LP received a license from the Small Business Administration, or SBA, to operate as an SBIC effective July 30, 2010 under Section 301(c) of the Small Business Investment Act of 1958, or the 1958 Act. Both SBIC LP and SBIC GP are consolidated wholly owned subsidiaries of PennantPark Investment. SBIC LP's objective is to generate both current income and capital appreciation through debt and equity investments generally, investing with us in SBA eligible businesses that meet the investment criteria used by PennantPark Investment.

PennantPark Investment, through the Investment Adviser, manages day-to-day operations of and provides investment advisory services to SBIC LP under a separate investment management agreement. PennantPark Investment, through the Administrator, also provides similar services to SBIC LP and our controlled affiliate SuttonPark Holdings, Inc. and its subsidiaries, or SPH, under separate administration agreements. See Note 3.

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 portfolio companies organized as pass-through entities and still satisfy the requirements of regulated investment companies, or RICs, under the Internal Revenue Code of 1986, as amended, or 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 period. Actual results could differ from these estimates. We have eliminated all intercompany balances and transactions, if any. 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.

Our Consolidated Financial Statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-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

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

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2012

(Unaudited)

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 herein, 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.

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

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

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

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

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

(c) Income Taxes

Since May 1, 2007, PennantPark Investment has complied with the requirements of Subchapter M of the Code and expects to be subject to tax as a RIC. As a result, PennantPark Investment accounts 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 bases of existing assets and liabilities. Based upon PennantPark Investment's qualification and election to be subject to tax as a RIC, we do not anticipate paying any material level of 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 recorded an excise tax of approximately \$0.3 million and \$0.2 million for the six months ended March 31, 2012 and 2011, 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 from 2008 to date remain subject to examination by the Internal Revenue Service and the state department of revenue.

Book and tax basis differences relating to permanent book and tax differences are reclassified among PennantPark Investment's capital accounts, as appropriate. Additionally, the tax character of distributions is determined in accordance with income tax regulations that may differ from GAAP.

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.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2012

(Unaudited)

(d) Dividends, Distributions, and Capital Transactions

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

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

(e) Consolidation

As permitted under Regulation S-X and 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 the Subsidiaries in our Consolidated Financial Statements.

(f) New Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, or ASU 2011-04. ASU 2011-04 amends ASC 820, Fair Value Measurements, or ASC 820, by: (1) clarifying that certain concepts related to measuring the fair value apply only to non-financial assets; (2) allowing a reporting entity to measure the fair value of a net asset or net liability position in a manner consistent with how market participants would price the position; (3) providing a framework for selecting a premium or discount that may be applied in a fair value measurement; (4) providing that an instrument classified in a reporting entity's shareholders' equity may be fair valued based on how a market participant would price the identical instrument; and (5) expanding the qualitative and quantitative fair value disclosure requirements. These amendments are effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The amendments of ASU 2011-04, as adopted, did not have a material impact on our Consolidated Financial Statements. See Note 5.

3. AGREEMENTS

PennantPark Investment's investment management agreement, or 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 PennantPark Investment, in February 2012. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of PennantPark Investment's board of directors, manages the day-to-day operations of and provides investment advisory services to PennantPark Investment. SBIC LP's investment management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us consisting of two components—a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets (net of U.S. Treasury Bills and/or temporary draws, if any, on the Credit Facility). The base management fee 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 the three and six months ended March 31, 2012, the Investment Adviser earned a base management fee of \$4.2 million and \$8.2 million, respectively, from us. For the three and six months ended March 31, 2011, the Investment Adviser earned a base management fee of \$3.6 million and \$7.1 million, respectively, from us.

The incentive fee has two parts, as follows:

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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 original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of 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 applicable quarter. For the three and six months ended March 31, 2012, the Investment Adviser earned an incentive fee of \$2.4 million and \$6.1 million, respectively, from us. For the three and six months ended March 31, 2011, the Investment Adviser earned an incentive fee of \$3.3 million and \$6.1 million, respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% 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. The performance based incentive fee on capital gains due to our Investment Adviser as calculated under the Investment Management Agreement (as described above) for the three and six months ended March 31, 2012 and March 31, 2011 resulted in no accrual.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2012

(Unaudited)

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. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20.0% 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.

PennantPark Investment's Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2012. Under the Administration Agreement, PennantPark Investment Administration provides administrative services for PennantPark Investment. The Administrator provides similar services to SBIC LP under its administration agreement with PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment reimburses the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the 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 the three and six months ended March 31, 2012, the Investment Adviser and Administrator, collectively, were reimbursed \$1.7 million and \$2.4 million, respectively, from us, including expenses incurred by the Investment Adviser on behalf of the Administrator, for the services described above. For the three and six months ended March 31, 2011, the Investment Adviser and Administrator, collectively, were reimbursed \$1.3 million and \$1.9 million, respectively, from us, including expenses incurred by the Investment Adviser on behalf of the Administrator, for the services described above.

PennantPark Investment entered into an administration agreement with its controlled affiliate, Sutton Park Holdings, or 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 of 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 respective staffs. For the three and six months ended March 31, 2012, PennantPark Investment was reimbursed \$0.3 million and \$0.5 million, respectively, for the services described above. For the three and six months ended March 31, 2011, PennantPark Investment was reimbursed \$0.3 million and \$0.4 million, respectively, for the services described above.

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Purchases of long-term investments including PIK for the three and six months ended March 31, 2012 totaled \$114.0 million and \$160.0 million, respectively. For the same period in the prior year, purchases of long-term investments including PIK totaled \$98.8 million and \$201.7 million, respectively. Sales and repayments of long-term investments for the three and six months ended March 31, 2012 totaled \$49.3 million and \$118.5 million, respectively. For the same period in the prior year, sales and repayments of long-term investments totaled \$51.6 million and \$137.1 million, respectively. Investments and cash equivalents consisted of the following:

	March 31, 2012		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 274,973,384	\$ 274,161,737	\$ 305,608,989	\$ 296,488,131
Second lien	192,418,196	168,085,901	189,962,828	165,272,201
Subordinated debt / corporate notes	369,162,462	362,908,657	325,318,958	309,329,169
Preferred equity	12,531,077	9,148,173	12,268,187	9,762,932
Common equity	47,737,577	74,548,823	33,163,874	46,696,082
Total investments	896,822,696	888,853,291	866,322,836	827,548,515
Cash equivalents	26,964,225	26,964,225	71,604,519	71,604,519
Total investments and cash equivalents	\$ 923,786,921	\$ 915,817,516	\$ 937,927,355	\$ 899,153,034

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 March 31, 2012 and September 30, 2011.

Industry Classification	March 31, 2012	September 30, 2011
Healthcare, Education and Childcare	11%	10%
Business Services	10	11
Energy / Utilities	8	9
Chemicals, Plastics and Rubber	6	6
Consumer Products	6	5
Cargo Transport	5	6
Distribution	5	
Electronics	5	3
Oil and Gas	5	5
Other Media	5	4
Personal, Food and Miscellaneous Services	4	5
Printing and Publishing	4	5
Education	3	4
Hotels, Motels, Inns and Gaming	3	4
Mining, Steel, Iron and Non-Precious Metals	3	3

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Aerospace and Defense	2	4
Buildings and Real Estate	2	2
Environmental Services	2	3
Leisure, Amusement, Motion Pictures, Entertainment	2	2
Telecommunications	2	
Communication	1	1
Home and Office Furnishings, Housewares and Durable		
Consumer Products	1	1
Logistics	1	1
Manufacturing / Basic Industry	1	1
Other	3	5
Total	100%	100%

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MARCH 31, 2012

(Unaudited)

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.

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.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence was available. Corroborating evidence that would result in classifying these non-binding brokers/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. 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 six months ended March 31, 2012, our ability to observe valuation inputs has resulted in no reclassification of assets from Level 3 to 2. There were no investments transferred between Levels 1 and 2 for the same period.

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

In accordance with ASU 2011-04 and as outlined in the table below, our investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids include a disclaimer, have no corroborating evidence and may be the result of consensus pricing. We do not adjust the bids.

The remainder of our portfolio was valued using a market comparable or enterprise valuation technique and our long-term Credit Facility used an income approach valuation 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.

Asset Category	Fair Value	Valuation Techniques	Unobservable Inputs	Range of Values/Input
First lien, second lien, subordinated debt/corporate notes and preferred and common equity	23%	Market approach	Broker/Dealer bids	1 - 9
First lien, second lien, subordinated debt/corporate notes and preferred and common equity	77%	Market comparable / Enterprise value	EBITDA multiples	8.0x
Long-Term Credit Facility	100%	Market comparable / Income approach	Discount rate	3.9%

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On March 31, 2012 and September 30, 2011, our cash equivalents, investments and our Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes.

Description	Fair Value	Fair Value at March 31, 2012		
		Level 1	Level 2	Level 3
Loan and debt investments	\$ 805,156,295	\$	\$ 43,269,560	\$ 761,886,735
Equity investments	83,696,996	7,832,584	129,209	75,735,203
Total investments	888,853,291	7,832,584	43,398,769	837,621,938
Cash equivalents	26,964,225	26,964,225		
Total investments and cash equivalents	\$ 915,817,516	\$ 34,796,809	\$ 43,398,769	\$ 837,621,938
Credit Facility	\$ 147,757,500	\$	\$	\$ 147,757,500