

REGIS CORP
Form DEF 14A
September 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒ X

Filed by a Party other than the Registrant ☐ O

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material under §240.14a-12

Regis Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
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(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held October 28, 2014

TO THE SHAREHOLDERS OF REGIS CORPORATION:

The Annual Meeting of the Shareholders (the Annual Meeting) of Regis Corporation (referred to as we, us, our, Regis and the Company) held at our executive offices located at 7201 Metro Boulevard, Edina, Minnesota 55439, on October 28, 2014 commencing at 9:00 a.m., for the following purposes:

1. To elect eight directors to serve for a one-year term and until their successors are elected and qualified;
2. To approve our Short Term Incentive Compensation Plan;
3. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm;
4. To approve, on an advisory basis, the compensation of our named executive officers (referred to as the Say-on-Pay proposal); and
5. To transact such other business, if any, as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only holders of record of our Common Stock at the close of business on September 2, 2014 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

Whether or not you plan to attend the Annual Meeting in person, please submit your proxy by telephone or through the Internet in accordance with the voting instructions provided to you. If you requested a paper copy of the proxy card by mail, you may also date, sign and mail the proxy card in the postage-paid envelope that is provided with your proxy card. Should you nevertheless attend the Annual Meeting, you may revoke your proxy and vote in person.

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If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the record holder that you must follow in order for your shares to be voted. If you plan to attend the Annual Meeting and hold shares in your name, please be prepared to provide proper identification, such as a driver's license. If you hold your shares through a bank or broker, you will need proof of ownership, such as a recent account statement or letter from your bank or broker, along with proper identification in order to attend the Annual Meeting. If you hold your shares through a bank or broker and intend to vote your shares at the Annual Meeting, you will need to provide a legal proxy from your broker.

By Order of the Board of Directors

Eric A. Bakken
Secretary

September 10, 2014

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PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS, OCTOBER 28, 2014

This Proxy Statement is furnished to shareholders of REGIS CORPORATION, a Minnesota corporation (the Company), in connection with the solicitation on behalf of our Board of Directors (the Board) of proxies for use at the annual meeting of shareholders to be held on October 28, 2014 (the Annual Meeting), and at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

The address of our principal executive office is 7201 Metro Boulevard, Edina, Minnesota 55439.

Availability of Proxy Materials

As permitted by rules adopted by the Securities and Exchange Commission (SEC), we are making our proxy materials, which include our Notice and Proxy Statement and Annual Report on Form 10-K, available to our shareholders over the Internet. We believe that this e-proxy process expedites our shareholders' receipt of proxy materials and lowers the costs and reduces the environmental impact of the Annual Meeting. In accordance with such SEC rules, we will send shareholders of record as of the close of business on September 2, 2014 a Notice of Internet Availability of Proxy Materials (the Notice), which mailing will commence on or about September 10, 2014. The Notice contains instructions on how shareholders can access our proxy materials and vote their shares over the Internet. If you would like to receive a printed copy of our proxy materials from us instead of downloading them from the Internet, please follow the instructions for requesting such materials included in the Notice.

Solicitation and Revocation of Proxies

In addition to the use of the mails, proxies may be solicited personally or by mail, telephone, fax, email, Internet or other electronic means by our directors, officers and regular employees who will not be additionally compensated for any such services. Proxies may also be solicited by means of press releases and other public statements.

We will pay all solicitation expenses in connection with the Notice and this Proxy Statement and any related proxy soliciting material of the Board, including the expense of preparing, printing, assembling and mailing such material.

Proxies to vote at the Annual Meeting are solicited on behalf of the Board. Any shareholder giving a proxy may revoke it at any time before it is exercised by attending the Annual Meeting and revoking it or by providing written notice of revocation or by submitting another proxy bearing a later date to our Secretary at the address set forth above. Such proxies, if received in time for voting and not revoked, will be voted at the Annual Meeting in accordance with the specifications indicated thereon.

If You Hold Your Shares in Street Name

If you hold your shares in street name, i.e., through a bank, broker or other holder of record (a custodian), your custodian is required to vote your shares on your behalf in accordance with your instructions. If you do not give instructions to your custodian, your custodian will not be permitted to vote your shares with respect to non-discretionary items, such as the election of directors, the approval of the Short Term Incentive Plan (the Short Term Plan) and the Say-on-Pay proposal. Accordingly, we urge you to promptly give instructions to your custodian to vote on these matters by following the instructions provided to you by your custodian. Please note that if you intend to vote your street name shares in person at the Annual Meeting, you must provide a legal proxy from your custodian at the Annual Meeting.

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VOTING RIGHTS AND REQUIREMENTS

Only shareholders of record as of the close of business on September 2, 2014 will be entitled to sign proxies or to vote. On that date, there were 55,656,564 shares issued, outstanding and entitled to vote. Each share of Common Stock is entitled to one vote. A majority of the outstanding shares present in person or by proxy at the Annual Meeting is required to transact business, and constitutes a quorum for voting on items at the Annual Meeting. If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will be counted as being present at the Annual Meeting in determining the quorum, but neither will be counted as a vote in favor of a matter. A broker non-vote is a proxy submitted by a bank, broker or other custodian that does not indicate a vote for some of the proposals because the broker does not have or does not exercise discretionary voting authority on certain types of proposals and has not received instructions from its client as to how to vote on those proposals.

Vote Required

Item 1. The affirmative vote of a majority of the votes cast in person or by proxy and entitled to vote at the Annual Meeting, with respect to each director nominee, is required for the election to the Board of each of the nominees for director. Shareholders do not have the right to cumulate their votes in the election of directors. The election is not contested. A majority of the votes cast means that the votes entitled to be cast by the holders of all the then-outstanding shares of voting stock of the Company that are voted For a director must exceed the shares voted Against the director.

Items 2 and 3. The affirmative vote of the holders of the greater of (1) a majority of the shares of our Common Stock present in person or by proxy and entitled to vote on the proposal or (2) a majority of the minimum number of shares entitled to vote that would constitute a quorum for the transaction of business at the Annual Meeting is required for approval of these proposals. A shareholder who abstains with respect to any of these proposals will have the effect of casting a negative vote on that proposal. A shareholder who does not vote in person or by proxy on a proposal (including a broker non-vote on a proposal) is not deemed to be present in person or by proxy and is not entitled to vote on the proposal for the purpose of determining whether a proposal has been approved.

Item 4. The advisory vote on executive compensation in Item 4 is not binding on us; however, we will consider the shareholders to have approved our executive compensation if the number of shares voted For the proposal exceed the number of shares voted Against the proposal. A shareholder who abstains with respect to this proposal will have no effect on its outcome.

Routine Versus Non-Routine Matters. Brokers cannot vote on their customers' behalf on non-routine proposals such as Item 1, the election of directors, Item 2, the approval of the Short Term Plan and Item 4, the advisory vote on executive compensation. Because brokers require their customers' direction to vote on such non-routine matters, it is critical that shareholders provide their brokers with voting instructions. On the other hand, Item 3, ratification of the appointment of our independent registered public accounting firm, is a routine matter for which your broker does not need your voting instruction in order to vote your shares.

Effect of Broker Non-Votes. If you hold your shares in street name and do not provide voting instructions to your bank, broker or other custodian, your shares will not be voted on any proposal on which your broker does not have or does not exercise discretionary authority to vote, such as may be the case with a non-routine matter for which you do not provide voting instructions. A broker non-vote on any of the proposals presented at the Annual Meeting will have no effect on the outcome of the proposal.

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Eight directors are to be elected at the Annual Meeting, each to hold office for one year until the 2015 annual meeting of shareholders and until their successors are elected and qualified. Based upon the recommendation of the Nominating and Corporate Governance Committee, the Board has nominated the eight persons named below for election as directors. All of the Board's nominees are currently directors of Regis and each nominee has consented to serve if elected.

Unless authority to vote is withheld, proxies submitted will be voted for the election of the Board's nominees named herein as directors of Regis. If for any reason a nominee becomes unable to serve or for good cause will not serve if elected, the Nominating and Corporate Governance Committee may designate substitute nominees, in which event the shares represented by proxies returned to us will be voted for such substitute nominees. If the Nominating and Corporate Governance Committee designates any substitute nominees, we will file an amended proxy statement that, as applicable, identifies the substitute nominees, discloses that such nominees have consented to being named in the revised proxy statement and to serve if elected, and includes certain biographical and other information about such nominees required by SEC rules.

The following table contains certain information with respect to the director nominees:

Name and Age	Position
Daniel G. Beltzman (39)	Director
James P. Fogarty (46)	Director
David J. Grissen (56)	Director
Daniel J. Hanrahan (57)	President and Chief Executive Officer, Director
Mark S. Light (52)	Director
Michael J. Merriman (58)	Director
Stephen E. Watson (69)	Independent Chairman of the Board, Director
David P. Williams (53)	Director

Mr. Daniel G. Beltzman, age 39, Director

Mr. Beltzman was elected a director of Regis in August 2012. Mr. Beltzman currently serves as a General Partner of Birch Run Capital Advisors, LP (Birch Run), a financial investment advisory firm, a position he has held since he co-founded Birch Run in May 2006. Prior to managing investments, Mr. Beltzman worked at both Deutsche Bank Securities, Inc. and Bank of America Securities, LLC focusing on equity research and mergers and acquisitions. Thereafter, he founded an entrepreneurial venture that provided services to help European builders more efficiently manage their supply chains. Mr. Beltzman also worked with a boutique investment firm that specializes in joint venture equity and mezzanine debt for real estate ventures. Mr. Beltzman has spent the last ten years as an investor and manager of Birch Run and its predecessors, during which time he has studied the business models of many public companies, and developed a specific expertise in capital allocation.

Mr. Beltzman's financial experience and expertise contribute valuable insights to the Board. In addition, Mr. Beltzman, as an affiliate of Birch Run, which owned approximately 19% of the Company's common stock on September 2, 2014, brings an additional perspective as a significant

shareholder of the Company.

Mr. James P. Fogarty, age 46, Director

Mr. Fogarty was elected a director of Regis in October 2011. Mr. Fogarty is Chief Executive Officer and a Director of Orchard Brands, a multi-title catalog and internet retailer, a position he has held since November 2011. Prior to that, Mr. Fogarty was a private investor from November 2010 to November 2011. From April 2009 until November 2010, Mr. Fogarty was President, Chief Executive Officer and Director of Charming Shoppes, Inc., a multi-brand, specialty apparel retailer. Prior to that, Mr. Fogarty was a Managing Director of Alvarez & Marsal (A&M), an independent global professional services firm, from August 1994 until April 2009. He was also a member of A&M's Executive Committee for North America Restructuring. During his tenure at A&M, Mr. Fogarty most recently served as President and Chief Operating Officer of Lehman Brothers Holdings (subsequent to its Chapter 11 bankruptcy filing) from September 2008 until April 2009. From September 2005 through February 2008, Mr. Fogarty was President and Chief Executive Officer of American Italian Pasta Company, the largest producer of dry pasta in North America. He served as the Chief Financial Officer of Levi Strauss & Co., a brand-name apparel company from 2003 until 2005. From December 2001 through September 2003, he served as Senior Vice President and Chief Financial Officer and for a period as a Director of The Warnaco Group, a global apparel maker, which emerged from bankruptcy in early 2003 after completing a successful turnaround during his tenure.

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Mr. Fogarty's operational and turnaround experience allows him to make significant contributions to the Board, particularly during the recent time of transition at the Company. He has significant executive officer and director experience at a variety of public and private companies, including companies in the specialty retail industry, which provides meaningful industry expertise to the Board.

Mr. David J. Grissen, age 56, Director

Mr. Grissen was elected a director of Regis in October 2013. Mr. Grissen is Group President of Marriott International, Inc., a global operator of hotels and related lodging facilities, a position he has held since 2013. During his 24 years of experience with Marriott, he held various positions, including Group President, Americas; President, Americas; Executive Vice President of the Eastern Region; Senior Vice President of the Mid-Atlantic Region and Senior Vice President of Finance and Business Development. He has had responsibility for the financial management and leadership of all the Americas' lodging operations, comprising more than 3,400 hotels and a work force of 100,000 associates, including responsibility for sales and marketing, revenue management, human resources, engineering, room operations, food and beverage/retail/spa, information resources and development. Mr. Grissen was a director of Good Times Restaurants Inc. from 2005 to 2010.

Mr. Grissen's experience leading a complex service organization that includes both franchised and owned operations contributes valuable perspectives to the Board. The Board believes that Mr. Grissen's experience building marketing platforms for multiple portfolio brands, and his experience in acquisitions and integration, help him guide the Company in its turnaround as it focuses on improving the customer experience through each of its brands and identifies opportunities for growth.

Mr. Daniel J. Hanrahan, age 57, President and Chief Executive Officer, Director

Mr. Hanrahan is the President and Chief Executive Officer of the Company, and a member of the Board, which positions he has held since August 2012. Prior to joining the Company, he served as President of Celebrity Cruises at Royal Caribbean Cruises Ltd., a global cruise vacation company, since February 2005, and as its President and Chief Executive Officer since September 2007. Mr. Hanrahan served as President and Chief Executive Officer of Azamara Cruises at Royal Caribbean from February 2005 to July 2009. From 1999 until February 2005, Mr. Hanrahan served in a variety of positions with the Royal Caribbean International brand, including Senior Vice President, Sales and Marketing. Mr. Hanrahan has served on the Board of Directors of Cedar Fair, L.P., an amusement-resort operator, since 2012, and is a member of its Audit and Compensation Committees.

The Board believes that Mr. Hanrahan should continue to serve as a director because as Chief Executive Officer of the Company, he shares responsibility with the Board for guiding the direction of the Company, and he has a deep understanding of the Company's operations, strategy, results of operations and financial condition, as well as issues affecting the Company's industry. Mr. Hanrahan's prior operational background and his extensive experience across a wide spectrum of consumer-facing brands enable him to provide important insights to the Board related to the Company's strategy to improve the salon experience.

Mr. Mark S. Light, age 52, Director

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Mr. Light was elected a director of Regis in October 2013. Mr. Light is President and Chief Operating Officer of Signet Jewelers Limited. Signet Jewelers Limited is the largest specialty jewelry retailer in the United States, the United Kingdom, and Canada. Signet's Sterling Jewelers Division operates over 1,400 stores in all 50 states primarily under the name brands of Kay Jewelers and Jared The Galleria Of Jewelry. Signet's UK division operates approximately 500 store primarily under the name brands of H. Samuel and Ernest Jones. Signet's Zale division operates over 1,600 locations in the U.S. and Canada primarily under the name brands of Zales, People's and Piercing Pagoda. Mr. Light started at Sterling Jewelers Inc. as a sales associate 36 years ago, and has progressed through various management positions to his current position, holding many titles along the way, including Division President, Executive Vice President of Operations, President and Chief Operating Officer and President and Chief Executive Officer.

Mr. Light has brought his experience with a company having a business model similar to the Company's, which is focused on customer loyalty and a high performing field sales group, to assist the Board in its efforts to improve the salon experience and the Company's operational performance.

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Mr. Michael J. Merriman, age 58, Director

Mr. Merriman was elected a director of Regis in October 2011. Mr. Merriman has been an operating advisor with Resilience Capital Partners, LLC, a private equity firm, since July 1, 2008. From November 2006 until its sale in November 2007, Mr. Merriman served as Chief Executive Officer of The Lamson & Sessions Co., a publicly held manufacturer of thermoplastic conduit, fittings and electrical switch and outlet boxes. Prior to joining Lamson & Sessions, Mr. Merriman served as the Senior Vice President and Chief Financial Officer of American Greetings Corporation, a publicly held creator and manufacturer of innovative social expression products, from September 2005 until November 2006. He served as the President and Chief Executive Officer of Royal Appliance Mfg. Co., a publicly held manufacturer and marketer of Dirt Devil vacuum cleaners, from 1995 until April 2004, was its Chief Financial Officer from 1992 to 1995 and served on the board of directors from 1993 to 2004. Mr. Merriman served as a director of American Greetings Corporation from 2006 until it went private in August 2013. Mr. Merriman currently serves as a director of Nordson Corporation, a publicly held manufacturer of equipment used for precision dispensing, testing and inspection, surface preparation and curing, since 2008; OMNOVA Solutions Inc., a publicly held innovator of emulsion polymers, specialty chemicals and decorative and functional surfaces, since 2008; and Invacare Corporation, a publicly held medical equipment company, since May 2014. Mr. Merriman also served as a director of RC2 Corporation, a publicly held manufacturer of pre-school toys and infant products, from 2004 until its sale in April 2011.

Mr. Merriman brings to the Board his financial acumen, his significant public accounting experience, his experience as a chief executive officer of other publicly traded companies, his service on boards of directors of other publicly traded companies and his retail experience. Mr. Merriman has significant finance, financial reporting and accounting expertise and was formerly a certified public accountant with Arthur Andersen & Co., which provides the Board with valuable expertise. In addition, the Board believes that his wide range of management experience at various public companies allows him to provide valuable insight into the Company's operations as well as its interactions with investors and financial analysts.

Mr. Stephen E. Watson, age 69, Independent Chairman of the Board

Mr. Watson was elected a director of Regis in April 2008, and became the Chairman of the Board on January 29, 2013. Mr. Watson brings to the Board nearly 40 years of executive and director experience in the retail industry. From 1973 through 1996, Mr. Watson held various executive officer positions with Dayton Hudson Corporation, including Chairman and Chief Executive Officer of Dayton Hudson Department Stores Co. and President of Dayton Hudson Corporation. From 1972 to 1996, Mr. Watson held various executive officer positions, including President and Chief Executive Officer of the Department Store Division. From 1997 until his retirement in 2002, Mr. Watson was President and Chief Executive Officer of Gander Mountain Company, a privately held retailer for outdoor sports and recreation activities. In addition to serving as a director of Regis, Mr. Watson is currently also a director of Kohl's Corporation, a specialty, family-focused, value-oriented department store, where he serves as Lead Director and Chairman of the Audit Committee, and of Chico's FAS, Inc., a women's specialty retailer of privately branded, sophisticated clothing and accessories where he serves on the Audit and the Compensation and Benefits Committees. From 1997 through December 2005, Mr. Watson was a director of ShopKo Stores, Inc., an operator of general merchandise stores. From 2004 through May 2007, Mr. Watson was a director of Smart & Final, Inc., an operator of grocery stores. He also served on the boards of Norwest Bank from 1990 to 1996, Target Corporation from 1991 to 1996, Retek Inc. from November 1999 to 2004 and Eddie Bauer Holdings, Inc. from 2005 to 2009.

Mr. Watson's experience as the leading senior executive officer of several complex and specialty retail businesses, his experience as a director of other retail-oriented public companies and his broad-based knowledge in the areas of retail operations, corporate finance, accounting, marketing and merchandise procurement, bring significant value to our Board. He also contributes a wealth of knowledge and experience of serving on the boards of several public retail companies where he has also served as an audit and governance committee chair.

Mr. David P. Williams, age 53, Director

Mr. Williams was elected a director of Regis in October 2011. Mr. Williams currently serves as the Executive Vice President and Chief Financial Officer of Chemed Corporation, a provider, through its subsidiaries, of hospice care and repair and maintenance services. Mr. Williams has served as Chemed's Chief Financial Officer since February 2004. From 1998 until 2004, Mr. Williams was the Senior Vice President and Chief Financial Officer of the Roto-Rooter Group, a leading provider of commercial and residential plumbing and drain cleaning services. Prior to that, Mr. Williams was the Chief Financial Officer of Chemed's Omnia Group subsidiary, a manufacturer of disposable healthcare products, and prior to that was Senior Vice President and Chief Financial Officer of Omnicare's Veratex Group, a national distributor of disposable medical, dental and pharmaceutical products. Prior to joining Chemed, Mr. Williams was with Price Waterhouse in their Comprehensive Professional Services Group.

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Mr. Williams' depth of experience in various senior executive roles of public and private companies and his significant accounting and financial expertise enable him to provide meaningful contributions to the oversight of financial and accounting matters at the Company, and qualify him as an audit committee financial expert.

The Board unanimously recommends that you vote FOR the election of each of the director nominees.

CORPORATE GOVERNANCE

The Board believes that good corporate governance is paramount to ensure that we are managed for the long-term benefit of our shareholders. As part of our ongoing efforts to constantly improve corporate governance, the Board and management have undertaken a number of initiatives to improve our corporate governance policies and practices over recent years. Below is a summary of the key corporate governance practices in effect at Regis:

Corporate Governance Practices

Corporate Governance Practice	Regis Policy
Board Independence and Leadership	All of our directors, other than our President and Chief Executive Officer, are independent, and we have an independent Chairman of the Board.
Board Refreshment and Shareholder Insight	Seven of our eight current directors joined the Board at or after the 2011 annual meeting of shareholders, and three of them were identified as candidates by, or in coordination with, our shareholders.
Management Team Enhancements	All but one of our executive officers have joined our company since 2011, including CEO Daniel Hanrahan, and we have added key talent to our management team in the areas of real estate, franchising, human resources, marketing, information management and asset protection.
Annual Election of Directors	All of our directors have one-year terms and stand for election each year.
Majority Voting Standard	In 2013, our Board and shareholders adopted a majority voting standard for the election of directors. We also amended our Corporate Governance Guidelines to require incumbent directors who do not receive a majority vote to tender their resignation to the Board.
10% Threshold for Special Meetings	Shareholders holding 10% or more of Regis' s outstanding stock have the right to call a special meeting of shareholders.
Related Party Transactions	Our Board has adopted a Related Party Transaction Approval Policy requiring approval of all related party transactions where the amount involved exceeds \$10,000 for the fiscal year. We did not have any related party transactions during fiscal 2014.
Director Stock Ownership	

Under our Corporate Governance Guidelines, our directors are required to hold all common stock received as part of their compensation for service as a director until he or she ceases to be a member of the board. All of our directors own stock in the Company.

Executive Compensation Best Practices

In 2012, our Compensation Committee retained a new executive compensation consultant and restructured our executive compensation programs. The compensation information included in this Proxy Statement reflects the second year we have operated our new compensation programs. Our key fiscal 2014 compensation practices are described below in more detail under Compensation Discussion and Analysis (the CD&A), including:

- Focus on performance-based incentives;
- Adoption of a clawback policy;
- Benchmarking of severance benefits and perks;
- Elimination of tax gross-ups;

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	• Meaningful stock ownership guidelines for executives; • Prohibition on hedging transactions; • Use of an independent compensation consultant; • Annual risk assessment process; • Annual say-on-pay shareholder vote; and • Prohibition on repricing without shareholder approval.
Shareholder Rights Plan	It is the Board's intention to not renew the Company's shareholder rights plan (sometimes called a "poison pill") when it expires in December 2016.

Shareholders and other interested persons may view our Corporate Governance Guidelines on our website at www.regiscorp.com. This information is also available in printed form free of charge to any shareholder who requests it by writing to our Corporate Secretary at Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics (the "Code of Ethics") that applies to all of our employees, directors and officers, including our President and Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and other senior financial officers. The Code of Ethics, as applied to our principal financial officers, constitutes our "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act and is our "code of business conduct and ethics" within the meaning of the listing standards of the New York Stock Exchange ("NYSE"). The Code of Ethics is posted on our website at www.regiscorp.com. You may request copies, which will be provided free of charge, by writing to Corporate Secretary, Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439. We intend to promptly disclose future amendments to certain provisions of our Code of Ethics, and any waivers of provisions of the Code of Ethics that are required to be disclosed under the rules of the SEC or under the listing standards of the NYSE, at the same location on our website.

Director Orientation and Continuing Education

Our Nominating and Corporate Governance Committee and the Board oversee the orientation and continuing education of our directors.

Director Independence

With the adoption of our Corporate Governance Guidelines, the Board established independence standards in accordance with the requirements of the NYSE corporate governance rules. To be considered independent under the NYSE rules, the Board must affirmatively determine that a director or director nominee does not have a material relationship with us (directly, or as a partner, shareholder or officer of an organization that has a relationship with us). In addition, no director or director nominee may be deemed independent if the director or director nominee has in the past three years:

- Received (or whose immediate family member has received) more than \$120,000 per year in direct compensation from us, other than director or committee fees;
- Been an employee of ours;
- Had an immediate family member who was an executive officer of ours;
- Been (or whose immediate family member has been) an affiliate or employee of a present or former internal or independent auditor of Regis;
- Been (or whose immediate family member has been) employed as an executive officer of another company whose compensation committee within the past three years has included a present executive officer of Regis; or
- Is currently an employee or executive officer (or has an immediate family member who is an executive officer) of another company that makes payments to us, or receives payments from us, for property or services in an

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amount which, in any single fiscal year, exceeds the greater of \$1.0 million or 2% of such other company's consolidated gross revenues.

Under our director independence standards described above, the Board has determined that each director, with the exception of Mr. Hanrahan, our President and Chief Executive Officer, is independent. The Board determined that Mr. Williams' service as Chief Financial Officer of the

255,665,000

SBA debentures payable, net (par—\$184,000,000 and \$199,000,000, respectively) (See Notes 5 and 10)

179,739,718

194,364,653

Base management fee payable, net (See Note 3)

4,817,516

4,845,237

Performance-based incentive fee payable, net (See Note 3)

2,675,573

2,270,008

Interest payable on debt

5,507,033

6,876,756

Accrued other expenses

1,773,807

1,523,425

Total liabilities

537,880,172

555,387,370

Commitments and contingencies (See Note 11)

Net assets

Common stock, 71,060,836 shares issued and outstanding

Par value \$0.001 per share and 100,000,000 shares authorized

71,061

71,061

Paid-in capital in excess of par value

818,737,784

818,737,784

Undistributed net investment income

4,710,289

3,333,195

Accumulated net realized loss on investments

(112,824,872

)

(116,598,355

)

Net unrealized depreciation on investments

(63,198,669

)

(56,425,773

)

Net unrealized appreciation on debt

(1,182,675

)

(2,309,441

)

Total net assets

\$

646,312,918

\$

646,808,471

Total liabilities and net assets

\$

1,184,193,090

\$

1,202,195,841

Net asset value per share

\$

9.10

\$

9.10

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$21,383,219	\$21,651,426
Payment in kind	1,284,909	220,704
Other income	1,586,642	2,102,536
From non-controlled, affiliated investments:		
Interest	1,215,834	2,790,932
Payment in kind	1,573,306	1,434,749
Other income	—	22,500
From controlled, affiliated investments:		
Interest	480,430	179,735
Payment in kind	1,144,085	3,466,329
Total investment income	28,668,425	31,868,911
Expenses:		
Base management fee (See Note 3)	5,735,137	6,274,782
Performance-based incentive fee (See Note 3)	3,185,204	3,374,210
Interest and expenses on debt (See Note 10)	5,857,378	6,735,574
Administrative services expenses (See Note 3)	521,625	894,000
Other general and administrative expenses	628,290	668,507
Expenses before Management Fees waiver and provision for taxes	15,927,634	17,947,073
Management Fees waiver (See Note 3)	(1,427,253)	(1,543,839)
Provision for taxes	—	425,000
Net expenses	14,500,381	16,828,234
Net investment income	14,168,044	15,040,677
Realized and unrealized (loss) gain on investments and debt:		
Net realized gain (loss) on investments on:		
Non-controlled, non-affiliated investments	1,793,043	(22,195,334)
Non-controlled and controlled, affiliated investments	1,980,440	—
Net realized gain (loss) on investments	3,773,483	(22,195,334)
Net change in unrealized (depreciation) appreciation on:		
Non-controlled, non-affiliated investments	1,738,065	19,636,201
Non-controlled and controlled, affiliated investments	(8,510,961)	5,736,899
Debt depreciation (See Notes 5 and 10)	1,126,766	5,830,684
Net change in unrealized (depreciation) appreciation on investments and debt	(5,646,130)	31,203,784
Net realized and unrealized (loss) gain from investments and debt	(1,872,647)	9,008,450
Net increase in net assets resulting from operations	\$12,295,397	\$24,049,127

Net increase in net assets resulting from operations per common share (See Note 7)	\$0.18	\$0.34
Net investment income per common share	\$0.20	\$0.21

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Net increase in net assets resulting from operations:		
Net investment income	\$ 14,168,044	\$ 15,040,677
Net realized gain (loss) on investments	3,773,483	(22,195,334)
Net change in unrealized (depreciation) appreciation on investments	(6,772,896)	25,373,100
Net change in unrealized depreciation on debt	1,126,766	5,830,684
Net increase in net assets resulting from operations	12,295,397	24,049,127
Distributions to stockholders:	(12,790,950)	(19,897,034)
Net (decrease) increase in net assets	(495,553)	4,152,093
Net assets:		
Beginning of period	646,808,471	643,366,856
End of period	\$646,312,918	\$647,518,949
Undistributed (distributions in excess of) net investment income, at end of period	\$4,710,289	\$(1,736,977)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 12,295,397	\$ 24,049,127
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net change in net unrealized depreciation (appreciation) on investments	6,772,896	(25,373,100)
Net change in unrealized depreciation on debt	(1,126,766)	(5,830,684)
Net realized (gain) loss on investments	(3,773,483)	22,195,334
Net accretion of discount and amortization of premium	(239,321)	(938,502)
Purchases of investments	(138,433,423)	(229,234,313)
Payment-in-kind income	(3,706,405)	(2,914,692)
Proceeds from dispositions of investments	192,303,018	64,209,266
Amortization of deferred financing costs	375,065	168,635
Increase in interest receivable	(1,852,834)	(5,716,465)
Decrease in prepaid expenses and other assets	1,529,740	636,507
(Decrease) increase in payable for investments purchased	(1,014,000)	50,399,000
Decrease in interest payable on debt	(1,369,723)	(951,901)
(Decrease) increase in base management fee payable, net	(27,721)	195,987
Increase (decrease) in performance-based incentive fee payable, net	405,565	(31,108)
Increase in accrued other expenses	250,382	795,503
Net cash provided by (used in) operating activities	62,388,387	(108,341,406)
Cash flows from financing activities:		
Distributions paid to stockholders	(12,790,950)	(19,897,034)
Repayments under SBA debentures	(15,000,000)	—
Borrowings under Credit Facility	91,000,000	160,260,000
Repayments under Credit Facility	(91,000,000)	(62,481,000)
Net cash (used in) provided by financing activities	(27,790,950)	77,881,966
Net increase (decrease) in cash equivalents	34,597,437	(30,459,440)
Effect of exchange rate changes on cash	33,170	191,903
Cash and cash equivalents, beginning of period	38,202,068	75,608,113
Cash and cash equivalents, end of period	\$ 72,832,675	\$ 45,340,576
Supplemental disclosure of cash flow information:		
Interest paid	\$ 6,852,037	\$ 7,518,840
Taxes paid	\$ —	\$ 86,349
Non-cash exchanges and conversions	\$ —	\$ 18,026,006

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2017

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point		Par / Shares	Cost	Fair Value ⁽³⁾
				Spread				
				Above Index (4)				
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—123.9%. ⁽²⁾								
First Lien Secured Debt—49.9%								
ACC of Tamarac, LLC	06/20/2022	Telecommunications	11.18 %	3M L+950	7,462,500	\$7,347,875	\$7,462,500	
Allied America, Inc.	08/08/2022	Business Services	8.70 %	3M L+700	20,598,254	20,221,622	20,598,254	
Allied America, Inc. (Revolver) ⁽⁸⁾	08/08/2022	Business Services	—	—	2,000,000	—	—	
Bottom Line Systems, LLC	02/13/2022	Healthcare, Education and Childcare	9.19 %	3M L+750	19,800,000	19,534,457	19,800,000	
Cano Health, LLC	12/23/2021	Healthcare, Education and Childcare	9.87 %	1M L+850	23,397,021	22,883,876	23,397,021	
Cano Health, LLC (Revolver)	09/21/2021	Healthcare, Education and Childcare	9.87 %	1M L+850	540,000	540,000	540,000	
Cano Health, LLC (Revolver) ⁽⁸⁾	09/21/2021	Healthcare, Education and Childcare	—	—	360,000	—	—	
DermaRite Industries LLC	03/03/2022	Manufacturing / Basic Industries	8.57 %	1M L+700	9,925,000	9,794,823	9,855,591	
Deva Holdings, Inc.	10/31/2023	Consumer Products	8.32 %	3M L+675	5,000,000	4,902,195	4,900,000	
Deva Holdings, Inc. ⁽⁸⁾	10/31/2023	Consumer Products	—	—	385,000	—	—	
eCommission Financial Services, Inc. ⁽¹²⁾	08/29/2022	Financial Services	9.07 %	1M L+750	19,950,000	19,572,894	19,950,000	
eCommission Financial Services, Inc. ^{(8), (12)}	08/29/2022	Financial Services	—	—	4,000,000	—	—	

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eCommission Financial Services, Inc. (Revolver) ⁽⁸⁾ , (12)	08/29/2022	Financial Services	—	—	4,000,000	—	—	
Hollander Sleep Products, LLC	06/09/2022	Consumer Products	9.69	%	3M L+800	19,755,213	19,386,938	19,360,109
Home Town Cable TV, LLC	06/20/2022	Telecommunications	11.18	%	3M L+950	10,000,000	9,815,803	10,000,000
Juniper Landscaping of Florida, LLC	12/22/2021	Personal, Food and Miscellaneous Services	10.87	%	1M L+950	13,903,313	13,670,663	13,903,313
K2 Pure Solutions NoCal, L.P.	02/19/2022	Chemicals, Plastics and Rubber	10.57	%	1M L+900	14,522,529	14,294,511	14,404,242
One Sixty Over Ninety, LLC	03/03/2022	Media	10.84	%	3M L+918	16,250,000	15,966,825	16,250,000
Prince Mineral Holding Corp. ⁽⁵⁾	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50	%	—	11,875,000	11,825,258	12,231,250
SFP Holding, Inc.	09/01/2022	Buildings and Real Estate	7.73	%	3M L+625	17,500,000	17,172,080	17,500,000
SFP Holding, Inc. ⁽⁸⁾	09/01/2022	Buildings and Real Estate	—	—	5,000,000	—	—	
SFP Holding, Inc. (Revolver) ⁽⁸⁾	09/01/2022	Buildings and Real Estate	—	—	2,500,000	—	—	
Sunborn Oy, Sunborn Saga Oy ^{(9), (11), (12)}	06/28/2019	Hotels, Motels, Inns and Gaming	11.50	%	3M L+1,050	€30,417,040	31,583,845	37,620,431
			(PIK %)					
			3.50					
Triad Manufacturing, Inc.	12/28/2020	Manufacturing / Basic Industries	12.82	%	1M L+1,125	24,258,101	23,930,878	24,258,101
Trust Inns Limited ^{(9), (11), (12)}	02/12/2020	Buildings and Real Estate	9.02	%	3M L+850 ⁽⁷⁾	£16,670,198	26,958,555	22,562,106
US Med Acquisition, Inc.	08/13/2022	Healthcare, Education and Childcare	10.69	%	1M L+900	8,542,188	8,542,188	8,115,078
Whitney, Bradley & Brown, Inc.	10/18/2022	Space and Defense	10.57	%	1M L+900	19,451,250	19,074,851	19,256,737
Whitney, Bradley & Brown, Inc. (Revolver)	10/18/2022	Space and Defense	10.57	%	1M L+900	440,000	440,000	435,600
Whitney, Bradley & Brown, Inc. (Revolver) ⁽⁸⁾	10/18/2022	Space and Defense	—	—	1,026,667	—	—	(10,267)
Total First Lien Secured Debt							317,460,137	322,390,066
Second Lien Secured Debt—56.5%								
Balboa Capital Corporation ⁽¹²⁾	03/04/2022	Financial Services	13.75	%	—	28,500,000	28,297,616	28,500,000
Condor Borrower, LLC	04/25/2025	Business Services	10.12	%	3M L+875	12,500,000	12,252,319	12,312,500
DecoPac, Inc.	03/31/2025	Beverage, Food and Tobacco	9.94	%	3M L+825	23,024,259	22,573,436	22,794,017

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Howard Berger Co. LLC	09/30/2016	Distribution	11.70 %	3M L+1,000	43,500,000	42,156,867	41,325,000
			(PIK %) 5.12				
Infogroup, Inc.	04/03/2014	Other Media	10.94 %	3M L+925	20,400,000	20,022,599	20,094,000
Intermediate Transportation 100, LLC ⁽⁵⁾	03/01/2019	Chicago Transport	11.00 %	—	432,203	349,328	432,203
			(PIK %) 11.00				
Lighthouse Network, LLC	11/28/2015	Financial Services	10.07 %	3M L+850	22,000,000	21,781,290	21,890,000
MailSouth, Inc.	10/22/2012	Printing and Publishing	11.84 %	3M L+1,050	26,425,000	26,025,392	26,689,250
Parq Holdings Limited Partnership ^{(9), (12)}	12/17/2011	Hotels, Motels, Inns and Gaming	13.69 %	3M L+1,200	76,500,000	76,500,000	83,322,358
Pathway Partners Vet Management LLC	10/10/2015	Healthcare, Education and Childcare	9.57 %	1M L+800	5,888,889	5,830,883	5,830,000
Pathway Partners Vet Management LLC ⁽⁸⁾	10/10/2015	Healthcare, Education and Childcare	—	—	6,111,111	—	(61,111)
Pre-Paid Legal Services, Inc.	07/01/2010	Personal, Food and Miscellaneous Services	10.57 %	1M L+900	42,750,000	42,474,904	42,696,563
PT Network, LLC	04/12/2013	Healthcare, Education and Childcare	11.36 %	3M L+1,000	41,666,667	40,865,252	40,833,333
PT Network, LLC ⁽⁸⁾	04/12/2013	Healthcare, Education and Childcare	—	—	8,333,333	—	(166,667)
Veritext Corp.	01/30/2013	Business Services	10.69 %	3M L+900	18,834,375	18,368,715	18,834,375
Total Second Lien Secured Debt						357,498,601	365,325,821
Subordinated Debt/Corporate Notes—8.5%							
Cascade Environmental LLC	08/20/2011	Environmental Services	12.00 %	—	32,675,553	32,185,324	31,531,909
Credit Infonet, Inc.	10/26/2010	Personal, Food and Miscellaneous Services	13.00 %	—	11,172,756	10,960,756	11,172,756
			(PIK %) 0.75				
Goldsun Trading Limited ^{(9), (11), (12)}	02/19/2018	Healthcare, Education and Childcare	20.50 %	3M L+1,600	£9,388,106	13,643,988	12,414,099
			(PIK %) 12.00				
Total Subordinated Debt/Corporate Notes						56,790,068	55,118,764
Preferred Equity/Partnership Interests—1.0%							
AH Holdings, Inc.	—	Healthcare, Education and Childcare	6.00 %	—	211	500,000	406,023

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Alegeus Technologies Holdings Corp.	—	Financial Services	—	—	949	949,050	1,129,470
Condor Holdings Limited ^{(9), (12)}	—	Business Services	—		556,000	64,277	64,277
Condor Top Holdco Limited ^{(9), (12)}	—	Business Services	—		556,000	491,723	491,723
Convergint Technologies Holdings, LLC	—	Electronics	8.00 %	—	2,375	2,088,121	2,615,887
HW Holdco, LLC	—	Other Media	8.00 %	—	3,591	—	25,264
Roto Holdings, Inc.	—	Manufacturing / Basic Industries	9.00 %	—	1,197	1,197,000	1,572,604
Total Preferred Equity/Partnership Interests						5,290,171	6,305,248
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS							

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

DECEMBER 31, 2017

(Unaudited)

				Basis Point			
				Spread			
				Above			
	Maturity		Current	Par /			
Issuer Name	Expiration	Industry	Coupon	Index (4)	Shares	Cost	Fair Value (3)
Common Equity/Partnership Interests/Warrants—8.0%							
AH Holdings, Inc. (Warrants)	03/23/2024	Healthcare, Education and Childcare	—	—	753	\$—	\$—
Alegeus Technologies Holdings Corp.	—	Financial Services	—	—	1	950	1,131
ASP LCG Holdings, Inc. (Warrants)	05/05/2026	Education	—	—	933	586,975	1,786,524
Autumn Games, LLC	—	Broadcasting and Entertainment	—	—	1,333,330	3,000,000	—
Cardinal Logistics Holdings LLC (10)	—	Cargo Transport	—	—	—	(14) 5,411,024	4,234,459
(Intermediate Transportation 100, LLC)							
Cascade Environmental LLC (10)	—	Environmental Services	—	—	24,382	2,518,909	1,281,303
CI (Allied) Investment Holdings, LLC (Allied America, Inc.)	—	Business Services	—	—	70,000	700,000	700,000
	—	Distribution	—	—	1,745,639	1,745,639	4,680,778

CI (Galls) Prime Investment Holdings, LLC ⁽¹⁰⁾							
CI (PTN) Investment Holdings II, LLC	—	Healthcare, Education and Childcare	—	—	333,333	5,000,000	5,000,000
(PT Network, LLC)							
CI (Summit) Investment Holdings LLC	—	Buildings and Real Estate	—	—	100,000	1,000,000	1,079,199
(SFP Holdings, Inc.)							
Convergint Technologies Holdings, LLC	—	Electronics	—	—	2,375	—	5,436,210
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	3,449	3,448,658	3,448,658
eCommission Holding Corporation ⁽¹²⁾	—	Financial Services	—	—	80	800,000	966,297
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Building Materials	—	—	4,277	217,635	827,695
HW Holdco, LLC	—	Other Media	—	—	388,378	—	2,732,404
Infogroup Parent Holdings, Inc.	—	Other Media	—	—	181,495	2,040,000	1,641,926
ITC Rumba, LLC (Cano Health, LLC) ⁽¹⁰⁾	—	Healthcare, Education and Childcare	—	—	204,985	2,049,849	2,918,499
Kadmon Holdings, Inc. ⁽¹³⁾	—	Healthcare, Education and Childcare	—	—	252,014	2,265,639	912,291
LaMi Acquisition, LLC ⁽¹⁰⁾	—	Distribution	—	—	19	493,280	754,663
Lariat ecoserv Co-Invest Holdings, LLC ⁽¹⁰⁾	—	Environmental Services	—	—	1,000,000	1,000,000	—
MidOcean PPL Holdings, Corp.	—	Personal, Food and Miscellaneous Services	—	—	3,000	3,000,000	9,860,064
(Pre-Paid Legal Services, Inc.)							
Patriot National, Inc. ⁽¹³⁾	—	Insurance	—	—	100,885	238,038	3,733
Roto Holdings, Inc.	—	Manufacturing / Basic Industries	—	—	1,330	133,000	2,187,210
WBB Equity, LLC (Whitney, Bradley & Brown, Inc.)	—	Aerospace and Defense	—	—	628,571	628,571	622,286
ZS Juniper L.P.	—	Personal, Food and Miscellaneous Services	—	—	754	754,264	807,788

(Juniper Landscaping
of Florida, LLC) ⁽¹⁰⁾

Total Common Equity/Partnership Interests/Warrants						37,032,431	51,883,118
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						774,071,408	801,023,017
Investments in Non-Controlled, Affiliated Portfolio Companies—29.8% ⁽²⁾							
First Lien Secured Debt—9.8%							
American Gilsonite Company	12/31/2021	Diversified Natural Resources,	15.00 %	—	3,257,511	3,173,709	3,680,987
Corfin Industries LLC	11/25/2020	Aerospace and Defense	11.11 %	1M L+975	22,210,332	21,923,817	22,210,332
Corfin Industries LLC (Revolver) ⁽⁸⁾	11/25/2020	Aerospace and Defense	—	—	1,942,623	—	—
TRAK Acquisition Corp.	04/30/2018	Business Services	12.19 %	3M L+1,050	20,764,911	20,729,297	20,764,911
TRAK Acquisition Corp. (Revolver)	04/30/2018	Business Services	12.07 %	1M L+1,050	5,000,000	5,000,000	5,000,000
U.S. Well Services, LLC	02/02/2021	Oil and Gas	12.35 % (PIK %) 12.35	1M L+1,100	9,942,386	9,868,145	9,942,386
U.S. Well Services, LLC (Revolver)	02/02/2021	Oil and Gas	7.35 %	1M L+600	1,680,528	1,680,528	1,680,528
U.S. Well Services, LLC (Revolver) ⁽⁸⁾	02/02/2021	Oil and Gas	—	—	511,893	—	—
Total First Lien Secured Debt						62,375,496	63,279,144
Second Lien Secured Debt—1.6%							
EnviroSolutions Real Property Holdings, Inc. - Tranche A	12/23/2020	Environmental Services	9.69 %	3M L+800	4,856,640	4,836,780	4,856,640
EnviroSolutions Real Property Holdings, Inc. - Tranche B	08/03/2020	Environmental Services	9.69 % (PIK %) 9.69	3M L+800	4,771,363	4,750,868	4,771,363
EnviroSolutions Real Property Holdings, Inc. - Tranche C	10/10/2023		9.36 % (PIK %) 9.36	3M L+800	678,428	653,171	678,428
EnviroSolutions Real Property Holdings, Inc. - Tranche C ⁽⁸⁾	10/10/2023		—	—	182,124	—	—
Total Second Lien Secured Debt						10,240,819	10,306,431
Subordinated Debt/Corporate Notes—8.1%							
American Gilsonite Company ⁽⁵⁾	12/31/2021	Diversified Natural Resources,	17.00 %	—	9,727,948	9,727,948	10,798,023

	Precious Metals and Minerals	(PIK %)					
		10.37					
ETX Energy, LLC, 05/03/2007	Oil and Gas	12.50 %	—	29,505,314	37,726,511	41,307,441	
Convertible Note ⁽⁵⁾		(PIK %)					
		12.50					
Total Subordinated Debt/Corporate Notes					47,454,459	52,105,464	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

DECEMBER 31, 2017

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point		Cost	Fair Value ⁽³⁾
				Spread			
				Above Index ⁽⁴⁾	Par / Shares		
Common Equity/Partnership Interests/Warrants—10.3%							
Affinion Group Holdings, Inc.	—	Consumer Products	—	—	859,496	\$ 30,503,493	\$ 16,748,845
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Products	—	—	37,181	10,265,972	43,349
American Gilsonite Company	—	Diversified Natural Resources, Precious Metals and Minerals	—	—	25,400	5,465,627	9,173,757
Corfin InvestCo, L.P.	—	Aerospace and Defense	—	—	11,250	1,125,000	4,128,814
Corfin InvestCo, L.P. ⁽⁸⁾	—	Aerospace and Defense	—	—	11,250	—	—
EnviroSolutions Holdings, Inc.	—	Environmental Services	—	—	143,668	11,960,702	16,787,547
ETX Energy, LLC ⁽¹⁰⁾	—	Oil and Gas	—	—	113,610	—	2,740,605
ETX Energy Management Company, LLC ⁽¹⁰⁾	—	Oil and Gas	—	—	119,603	—	144,259
TRAK Acquisition Corp.	—	Business Services	—	—	491,755	188,837	6,780,758
USWS Holdings, LLC - Class A and Class B	—	Oil and Gas	—	—	8,190,817	7,023,751	9,905,622
						66,533,382	66,453,556

Total Common Equity/Partnership Interests/Warrants							
Total Investments in Non-Controlled, Affiliated Portfolio Companies						186,604,156	192,144,595
Investments in Controlled, Affiliated Portfolio Companies—16.6%, (2)							
First Lien Secured Debt—9.2%							
RAM Energy LLC	07/01/2018	Energy and Utilities	8.00 %	—	35,350,000	35,350,000	35,350,000
			(PIK %)				
			4.00				
Superior Digital Displays, LLC	12/31/2018	Media	10.30 %	3M L+900	30,176,453	29,138,450	23,833,333
			(PIK %)				
			10.30				
Total First Lien Secured Debt						64,488,450	59,183,333
Preferred Equity—2.1%							
MidOcean JF Holdings Corp.	—	Distribution	—	—	153,922	15,392,188	13,506,781
Superior Digital Displays Holdings, Inc.	—	Media	15.00 %	—	541,280	20,081,027	—
Total Preferred Equity						35,473,215	13,506,781
Common Equity—5.3%							
MidOcean JF Holdings Corp.	—	Distribution	—	—	65,933	24,761,831	—
RAM Energy Holdings LLC	—	Energy and Utilities	—	—	84,747	76,264,739	34,763,330
Superior Digital Displays Holdings, Inc.	—	Media	—	—	11,100	2,211,000	—
Total Common Equity						103,237,570	34,763,330
Total Investments in Controlled, Affiliated Portfolio Companies						203,199,235	107,453,444
Total Investments—170.3%						1,163,874,799	1,100,621,056
Cash and Cash Equivalents—11.3%							
BlackRock Federal FD Institutional 30						21,487,041	21,487,041
BNY Mellon Cash Reserve and Cash						51,294,051	51,345,634
Total Cash and Cash Equivalents						72,781,092	72,832,675
Total Investments and Cash Equivalents—181.6%						\$1,236,655,891	\$1,173,453,731
Liabilities in Excess of Other Assets—(81.6%)							(527,140,813)
Net Assets—100.0%							\$646,312,918

(1)The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be “non-controlled” when we own 25% or less of the portfolio company’s voting securities and “controlled” when we own more than 25% of the

portfolio company's voting securities.

- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as "non-affiliated" when we own less than 5% of a portfolio company's voting securities and "affiliated" when we own 5% or more of a portfolio company's voting securities (See Note 6).
- (3) Valued based on our accounting policy (See Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or "L," the Euro Interbank Offered Rate, or EURIBOR or "E," or Prime rate, or "P." The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 90-day or 180-day LIBOR rate (1M L, 3M L, or 6M L, respectively), and EURIBOR loans are typically indexed to a 90-day EURIBOR rate (3M E), at the borrower's option. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is not subject to a LIBOR or Prime rate floor.
- (8) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (9) Non-U.S. company or principal place of business outside the United States.
- (10) Investment is held through our Taxable Subsidiaries (See Note 1).
- (11) Par amount is denominated in British Pounds (£) or in Euros (€) as denoted.
- (12) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of December 31, 2017, qualifying assets represent 83% of the Company's total assets and non-qualifying assets represent 17% of the Company's total assets.
- (13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).
- (14) Share amount is 70,443,882,243.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2017

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

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

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

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)

SEPTEMBER 30, 2017

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

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

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

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

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)

SEPTEMBER 30, 2017

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

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

- (1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be “non-controlled” when we own 25% or less of the portfolio company’s voting securities and “controlled” when we own more than 25% of the portfolio company’s voting securities.
- (2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as “non-affiliated” when we own less than 5% of a portfolio company’s voting securities and “affiliated” when we own 5% or more of a portfolio company’s voting securities (See Note 6).
- (3) Valued based on our accounting policy (See Note 2).
- (4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or “L,” or Prime rate, or “P.” All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is not subject to a LIBOR or Prime rate floor.
- (8) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (9) Non-U.S. company or principal place of business outside the United States.
- (10) Investment is held through our Taxable Subsidiaries (See Note 1).
- (11) Par amount is denominated in British Pounds (£) or in Euros (€) as denoted.
- (12) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2017, qualifying assets represent 83% of the Company’s total assets and non-qualifying assets represent 17% of the Company’s total assets.
- (13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).
- (14) Share amount is 70,443,882,243.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Unaudited)

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. PennantPark Investment's objective is to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments. We invest primarily in U.S. middle-market companies in the form of first lien secured debt, second lien secured debt and subordinated debt and, to a lesser extent, equity investments. On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol "PNNT."

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Our Consolidated Financial Statements are prepared in accordance with GAAP, consistent with ASC 946, Financial Services – Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and Articles 6, 10 and 12 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

Our significant accounting policies consistently applied are as follows:

(a) Investment Valuations

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

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

below:

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

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

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market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

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

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering prepayment penalties. Net change in unrealized appreciation or depreciation reflects, as applicable, the change in the fair values of our portfolio investments, our Credit Facility, the 2019 Notes and the 2025 Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

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

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

(c)Income Taxes

We have complied with the requirements of Subchapter M of the Code and have qualified to be treated as a RIC for federal income tax purposes. As a result, we account for income taxes using the asset and 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 our qualification and election to be treated as a RIC, we do not anticipate incurring any material level of federal income taxes. Although we generally do not incur federal income taxes as a RIC for federal income tax purposes, we may elect to retain a portion of our calendar year income, which may result in the imposition of an excise tax. Additionally, certain of the Company's consolidated subsidiaries are subject to U.S. federal and state income taxes. For the three months ended December 31, 2017 and 2016, we recorded a provision for taxes of zero and \$0.4 million, respectively.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax positions not considered to satisfy the "more-likely-than-not" threshold would be recorded as a tax expense or benefit. Penalties or interest, if applicable, that may be assessed relating to income taxes would be classified as other operating expenses in the financial statements. As of December 31, 2017, there were no uncertain tax positions and no amounts accrued for interest or penalties. The Company's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although the Company files both federal and state income tax returns, the Company's major tax jurisdiction is federal.

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

(d)Distributions and Capital Transactions

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

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

(e) Foreign Currency Translation

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

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

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

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

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(f)Consolidation

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

(g)Recent Accounting Pronouncements

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. An amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017. Public business entities are permitted to apply the new guidance early, but not before the original effective date (i.e., interim periods within annual periods beginning after December 15, 2016). The Company has evaluated this guidance and determined it will have no material impact on its financial statements.

3. AGREEMENTS AND RELATED PARTY TRANSACTIONS

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2018. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us, consisting of two components— a base management fee and an incentive fee or, collectively, Management Fees.

The base management fee is calculated at an annual rate of 2.00% of our "average adjusted gross assets," which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such

quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. Since December 31, 2015 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of base management fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2017 and 2016, the Investment Adviser earned a base management fee of \$4.8 million (after a waiver of \$0.9 million) and \$5.3 million (after a waiver of \$1.0 million), respectively, from us. Effective January 1, 2018, the Investment Adviser has voluntarily and irrevocably agreed, in consultation with the board of directors, to reduce base management fees to 1.50% of the Company's average adjusted gross assets.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. Since December 31, 2015 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of incentive fees, correlated to our 16% energy cost exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2017 and 2016, the Investment Adviser earned \$2.7 million (after a waiver of \$0.5 million) and \$2.9 million (after a waiver of \$0.5 million), respectively, in incentive fees on net investment income from us. Effective January 1, 2018, the Investment Adviser has voluntarily and irrevocably agreed, in consultation with the board of directors, to reduce the incentive fee to 17.5% of the Company's pre-incentive fee net investment income (subject to a 7.00% annualized "hurdle rate" and 100% "catch-up" with a ceiling of 8.4848%).

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For each of the three months ended December 31, 2017 and 2016, the Investment Adviser did not earn an incentive fee on capital gains as calculated under the Investment Management Agreement (as described above). Effective January 1, 2018, the Investment Adviser has voluntarily and irrevocably agreed, in consultation with the board of directors, to reduce the incentive fee to 17.5% of the Company's cumulative

net realized capital gains.

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 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 (17.5% for periods after January 1, 2018), less the aggregate amount of actual capital gains related to 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, 2017 and 2016, the Investment Adviser did not accrue an incentive fee on capital gains as calculated under GAAP.

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 2018. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. The Administrator provides similar services

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to our SBIC Funds under each of their administration agreements with PennantPark Investment. For providing these services, facilities and personnel, we have agreed to reimburse 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 and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on our behalf, significant managerial assistance to portfolio companies to which we are required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the three months ended December 31, 2017 and 2016, we reimbursed the Investment Adviser approximately \$0.3 million and \$0.5 million, respectively, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

For the three months ended December 31, 2017 and 2016, the Company purchased zero and \$5.0 million, respectively in total investments to affiliated funds managed by our Investment Adviser in accordance with, and pursuant to procedures adopted under, Rule 17a-7 of the 1940 Act. The affiliated fund realized a gain of zero and less than \$0.1 million, respectively.

4. INVESTMENTS

Purchases of investments, including PIK interest, for the three months ended December 31, 2017 and 2016 totaled \$142.1 million and \$232.1 million, respectively. Sales and repayments of investments for the same periods totaled \$192.3 million and \$64.2 million, respectively.

Investments, cash and cash equivalents consisted of the following:

Investment Classification	December 31, 2017		September 30, 2017	
	Cost	Fair Value	Cost	Fair Value
First lien	\$444,324,083	\$444,852,543	\$465,235,137	\$466,076,352
Second lien	367,739,420	375,632,252	389,336,314	399,544,383
Subordinated debt / corporate notes	104,244,527	107,224,228	116,596,887	120,707,763
Equity	247,566,769	172,912,033	238,858,334	167,249,010
Total investments	1,163,874,799	1,100,621,056	1,210,026,672	1,153,577,508

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Cash and cash equivalents	72,781,092	72,832,675	38,182,373	38,202,068
Total investments, cash and cash equivalents	\$1,236,655,891	\$1,173,453,731	\$1,248,209,045	\$1,191,779,576

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

Industry Classification	December 31, 2017		September 30, 2017	
Healthcare, Education and Childcare	11	%	6	%
Hotels, Motels, Inns and Gaming	11		10	
Business Services	8		6	
Financial Services	7		7	
Personal, Food and Miscellaneous Services	7		9	
Energy and Utilities	6		6	
Oil and Gas	6		6	
Distribution	5		5	
Environmental Services	5		5	
Aerospace and Defense	4		2	
Buildings and Real Estate	4		4	
Consumer Products	4		5	
Media	4		4	
Manufacturing / Basic Industries	3		4	
Beverage, Food and Tobacco	2		3	
Diversified Natural Resources, Precious Metals and Minerals	2		2	
Other Media	2		2	
Printing and Publishing	2		2	
Telecommunications	2		1	
Electronics	1		4	
Building Materials	—		2	
Other	4		5	
Total	100	%	100	%

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.

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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 are available, such information may be the result of consensus pricing information, disorderly transactions 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 were available. Corroborating evidence that would result in classifying these non-binding broker/dealer bids as a Level 2 asset includes observable orderly 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 first lien secured debt, second lien secured debt, subordinated debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments valued using unobservable inputs are included in Level 3 of the fair value hierarchy.

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 both the three months ended December 31, 2017 and 2016, our ability to observe valuation inputs resulted in no reclassifications.

In addition to using the above inputs in cash equivalents, investments, the 2019 Notes and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value. See Note 2.

As outlined in the table below, some of our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids include a disclaimer, have no corroborating evidence, may be the result of a disorderly transaction 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 investment portfolio and our long-term Credit Facility are valued using a market comparable or an enterprise market value technique. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the pricing indicated by the external event, excluding transaction costs, is used to corroborate the valuation. When using earnings multiples to value a portfolio company, the multiple used requires the use of judgment and estimates in determining how a market participant would price such an asset. Generally, the sensitivity of unobservable inputs or combination of inputs such as industry comparable companies, market outlook, consistency, discount rates and reliability of earnings and prospects for growth, or lack thereof, affects the multiple used in pricing an investment. As a result, any change in any one of those factors may have a significant impact on the valuation of an investment. Generally, an increase in a market yield will result in a decrease in the valuation of a debt investment, while a decrease in a market yield will have the opposite effect. Generally, an increase in an EBITDA multiple will result in an increase in the valuation of an investment, while a decrease in an EBITDA multiple will have the opposite effect.

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

Asset Category	Fair Value at		Unobservable Input	Range of Input (Weighted Average)
	December 31, 2017	Valuation Technique		
First lien	\$12,231,250	Market Comparable	Broker/Dealer bids or quotes	N/A

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Second lien	90,449,452	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	432,621,293	Market Comparable	Market Yield	8.0% – 14.3% (10.9%)
Second lien	285,182,800	Market Comparable	Market Yield	8.6% – 15.1% (12.1%)
Subordinated debt / corporate notes	107,224,228	Market Comparable	Market Yield	13.3% – 21.3% (15.1%)
Equity	171,996,009	Enterprise Market Value	EBITDA multiple	4.8x – 15.8x (8.3x)
Total Level 3 investments	\$ 1,099,705,032			
Long-Term Credit Facility	\$ 76,578,075	Market Comparable	Market Yield	4.7%

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Asset Category	Fair Value at		Unobservable Input	Range of Input (Weighted Average)
	September 30, 2017	Valuation Technique		
First lien	\$ 14,820,000	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	96,885,313	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	451,256,352	Market Comparable	Market Yield	8.1% – 14.0% (11.0%)
Second lien	302,659,070	Market Comparable	Market Yield	9.6% – 14.6% (12.2%)
Subordinated debt / corporate notes	120,707,763	Market Comparable	Market Yield	11.6% – 20.5% (14.3%)
Equity	166,268,568	Enterprise Market Value	EBITDA multiple	4.8x – 15.8x (8.2x)
Total Level 3 investments	\$ 1,152,597,066			
Long-Term Credit Facility	\$ 76,037,341	Market Comparable	Market Yield	4.3%

Our investments, cash and cash equivalents, Credit Facility and the 2019 Notes were categorized as follows in the fair value hierarchy for ASC 820 purposes:

Description	Fair Value at December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Debt investments	\$927,709,023	\$—	\$—	\$927,709,023
Equity investments	172,912,033	916,024	—	171,996,009
Total investments	1,100,621,056	916,024	—	1,099,705,032
Cash and cash equivalents	72,832,675	72,832,675	—	—
Total investments, cash and cash equivalents	\$ 1,173,453,731	\$73,748,699	\$—	\$ 1,099,705,032
Long-Term Credit Facility	\$76,578,075	\$—	\$—	\$76,578,075
2019 Notes	253,997,500	—	253,997,500	—
Total debt	\$330,575,575	\$—	\$253,997,500	\$76,578,075

Description	Fair Value at September 30, 2017			
	Fair Value	Level 1	Level 2	Level 3
Debt investments	\$986,328,498	\$—	\$—	\$986,328,498
Equity investments	167,249,010	980,442	—	166,268,568

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Total investments	1,153,577,508	980,442	—	1,152,597,066
Cash and cash equivalents	38,202,068	38,202,068	—	—
Total investments, cash and cash equivalents	\$1,191,779,576	\$39,182,510	\$—	\$1,152,597,066
Long-Term Credit Facility	\$76,037,341	\$—	\$—	\$76,037,341
2019 Notes	255,665,000	—	255,665,000	—
Total debt	\$331,702,341	\$—	\$255,665,000	\$76,037,341

The tables below 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, 2017		
	Debt	Equity	Totals
	investments	investments	
Beginning Balance	\$986,328,498	\$166,268,568	\$1,152,597,066
Net realized gains	1,961,209	1,810,786	3,771,995
Net unrealized depreciation	(3,759,168)	(2,980,993)	(6,740,161)
Purchases, PIK interest, and net discount accretion	133,670,716	8,708,434	142,379,150
Sales and repayments	(190,492,232)	(1,810,786)	(192,303,018)
Transfers in/out of Level 3	—	—	—
Ending Balance	\$927,709,023	\$171,996,009	\$1,099,705,032
Net change in unrealized depreciation reported within the net change in unrealized (depreciation) appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$(1,441,348)	\$(2,980,993)	\$(4,422,341)

Description	Three Months Ended December 31, 2016		
	Debt	Equity	Totals
	investments	investments	
Beginning Balance	\$1,000,146,681	\$125,633,017	\$1,125,779,698
Net realized (losses) gains	(34,173,159)	11,800,414	(22,372,745)
Net unrealized appreciation (depreciation)	35,054,433	(9,984,472)	25,069,961
Purchases, PIK interest, net discount accretion and non-cash exchanges	226,774,334	11,778,800	238,553,134
Sales, repayments and non-cash exchanges	(56,037,044)	(13,637,849)	(69,674,893)
Transfers in/out of Level 3	—	—	—
Ending Balance	\$1,171,765,245	\$125,589,910	\$1,297,355,155
Net change in unrealized appreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$11,161,106	\$252,650	\$11,413,756

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Long-Term Credit Facility	Three Months Ended December 31,	
	2017	2016
Beginning Balance (cost – \$79,392,900 and \$50,339,700, respectively)	\$ 76,037,341	\$ 39,551,187
Net change in unrealized appreciation (depreciation) included in earnings	540,734	(1,207,684)
Borrowings ⁽¹⁾	35,000,000	110,260,000
Repayments ⁽¹⁾	(35,000,000)	(12,481,000)
Transfers in and/or out of Level 3	—	—
Ending Balance (cost – \$79,392,900 and \$148,118,700, respectively)	\$ 76,578,075	\$ 136,122,503
Temporary draws outstanding, at cost	—	—
Ending Balance (cost – \$79,392,900 and \$148,118,700, respectively)	\$ 76,578,075	\$ 136,122,503

⁽¹⁾Excludes temporary draws.

As of December 31, 2017, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value on foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
British Pound	£27,000,000	\$44,032,900	\$36,524,493	January 3, 2018	\$(7,508,407)
Euro	€34,000,000	35,360,000	40,827,098	January 3, 2018	5,467,098
		\$79,392,900	\$77,351,591		\$(2,041,309)

As of September 30, 2017, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value on foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
British Pound	£27,000,000	\$44,032,900	\$36,224,604	October 4, 2017	\$(7,808,296)
Euro	€34,000,000	35,360,000	40,194,834	October 4, 2017	4,834,834
		\$79,392,900	\$76,419,438		\$(2,973,462)

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility, the 2019 Notes and the 2025 Notes. We elected to use the fair value option for the Credit Facility, the 2019 Notes 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. During both the three months ended December 31, 2017 and 2016 we did not incur any expenses relating to amendment costs on the Credit Facility. 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 Statements of Assets and Liabilities and changes in fair value of the Credit Facility, the 2019 Notes and the 2025 Notes are reported in our Consolidated Statements 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, 2017, our Credit Facility and the 2019 Notes had a net change in unrealized depreciation of \$1.1 million. For the three months ended December 31, 2016, our Credit Facility, the 2019 Notes and the 2025 Notes had a net change in unrealized depreciation of \$5.8 million. As of December 31, 2017 and September 30, 2017, net unrealized appreciation on our Credit Facility and the 2019 Notes totaled \$1.2 million and \$2.3 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility and the 2019 Notes in a manner consistent with the valuation process that the board of directors uses to value our investments.

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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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 portfolio company is generally presumed to be a non-controlled affiliate when we own at least 5% but 25% or less of its voting securities and a controlled affiliate when we own more than 25% of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the three months ended December 31, 2017 were as follows:

Name of Investment	Fair Value at September 30, 2017 ⁽¹⁾	Purchases of / Advances to Affiliates ⁽¹⁾	Sale of / Distributions from Affiliates ⁽¹⁾	Income Accrued	Net Change in Appreciation / (Depreciation)	Fair Value at December 31, 2017 ⁽¹⁾	Net Realized Gain (Losses)
Controlled Affiliates							
MidOcean JF Holdings Corp.							
(JF Acquisition, LLC)	\$ 16,945,557	\$ 1,073,864	\$ —	\$ —	\$ (4,512,639)	\$ 13,506,781	\$ —
RAM Energy LLC	71,406,572	350,000	—	715,789	(1,643,242)	70,113,330	—
Superior Digital Displays							
Holdings, Inc.	26,198,854	1,540,324	—	908,726	(4,020,486)	23,833,333	—
Non-Controlled Affiliates							
Affinion Group Holdings, Inc.	19,704,139	—	—	—	(2,911,945)	16,792,194	—
American Gilsonite Company	22,807,532	—	—	543,516	840,028	23,652,767	—
Corfin Industries LLC	24,089,476	—	(383,020)	665,333	2,606,498	26,339,146	—
	25,236,136	762,662	—	245,257	1,090,647	27,093,978	—

EnviroSolutions Holdings, Inc.							
ETX Energy, LLC	44,430,932	894,100	—	292,437	(530,754)	44,192,305	—
TRAK Acquisition Corp.	32,175,378	15,000,000	(15,437,500)	706,738	777,792	32,545,669	—
U.S. Well Services, LLC	21,231,384	500,479	—	335,859	(206,861)	21,528,536	—
Total Controlled and Non-Controlled Affiliates	\$ 304,225,960	\$ 20,121,429	\$ (15,820,520)	\$ 4,413,655	\$ (8,510,962)	\$ 299,598,039	\$ —

⁽¹⁾Excluding delayed draw investments.

⁽²⁾Includes PIK.

7. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

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

	Three Months Ended December 31,	
	2017	2016
Numerator for net increase in net assets resulting from operations	\$ 12,295,397	\$ 24,049,127
Denominator for basic and diluted weighted average shares	71,060,836	71,060,836
Basic and diluted net increase in net assets per share resulting from operations	\$ 0.18	\$ 0.34

8. CASH AND CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out 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, 2017 and September 30, 2017, cash and cash equivalents consisted of money market funds in the amounts of \$72.8 million and \$38.2 million at fair value, respectively.

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

DECEMBER 31, 2017

(Unaudited)

9. FINANCIAL HIGHLIGHTS

Below are the financial highlights:

	Three Months Ended December 31,			
	2017		2016	
Per Share Data:				
Net asset value, beginning of period	\$9.10		\$9.05	
Net investment income ⁽¹⁾	0.20		0.21	
Net realized and unrealized (loss) gain ⁽¹⁾	(0.02)		0.13	
Net increase in net assets resulting from operations ⁽¹⁾	0.18		0.34	
Distributions to stockholders ^{(1), (2)}	(0.18)		(0.28)	
Net asset value, end of period	\$9.10		\$9.11	
Per share market value, end of period	\$6.91		\$7.66	
Total return* ⁽³⁾	(5.62)%		5.51 %	
Shares outstanding at end of period	71,060,836		71,060,836	
Ratios**/ Supplemental Data:				
Ratio of operating expenses to average net assets ^{(4), (5), (6)}	5.32	%	6.23	%
Ratio of interest and expenses on debt to average net assets	3.61	%	4.15	%
Ratio of total expenses to average net assets ^{(5), (6)}	8.93	%	10.38	%
Ratio of net investment income to average net assets ⁽⁶⁾	8.73	%	9.28	%
Net assets at end of period	\$646,312,918		\$647,518,949	
Weighted average debt outstanding ⁽⁷⁾	\$541,820,206		\$597,533,598	
Weighted average debt per share ^{(1), (7)}	\$7.62		\$8.41	
Asset coverage per unit ⁽⁸⁾	\$2,955		\$2,412	
Portfolio turnover ratio	48.71	%	21.20	%

*Not annualized for periods less than one year.

** Annualized for periods less than one year.

⁽¹⁾ Based on the weighted average shares outstanding for the respective periods.⁽²⁾ The tax status of distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP, and reported on Form 1099-DIV each calendar year.⁽³⁾ Based on the change in market price per share during the periods and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.⁽⁴⁾ Excludes debt related costs.

- (5) For the three months ended December 31, 2017 and 2016, the ratio of operating expenses before the waiver of certain Management Fees to average net assets was 6.20% and 7.18%, respectively, and the ratio of total expenses before the waiver of certain Management Fees to average net assets was 9.81% and 11.33%, respectively.
- (6) Does not annualize non-recurring provision for taxes.
- (7) Includes SBA debentures outstanding.
- (8) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as 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 SBA debentures from our asset coverage per unit computation pursuant to exemptive relief received from the SEC in June 2011.

10. DEBT

Our annualized weighted average cost of debt for the three months ended December 31, 2017 and 2016, inclusive of the fee on the undrawn commitment and amendment costs on the Credit Facility, amortized upfront fees on SBA debentures and debt issuance costs, was 4.32% and 4.51%, 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

As of December 31, 2017, we had a \$445 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, 2017 and September 30, 2017, there was \$79.4 million in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate of 2.47% and 2.42%, respectively, exclusive of the fee on undrawn commitments of 0.375%, as of December 31, 2017 and September 30, 2017. The Credit Facility is a five-year revolving facility with a stated maturity date of May 25, 2022, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

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 I with \$75.0 million of equity capital and it had SBA debentures outstanding of \$105.0 million as of December 31, 2017. We have funded SBIC II with \$75.0 million of equity capital and it had SBA debentures outstanding of \$79.0 million as of December 31, 2017. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

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to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$350.0 million in the aggregate.

As of December 31, 2017 and September 30, 2017, our SBIC Funds had \$300.0 million in debt commitments, respectively, of which \$184.0 million and \$199.0 million was drawn, respectively. As of December 31, 2017 and September 30, 2017, the unamortized fees on the SBA debentures was \$4.3 million and \$4.6 million, respectively. The SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures were as follows:

Issuance Dates	Maturity	Fixed All-in Coupon Rate ⁽¹⁾	As of December 31, 2017 Principal Balance
September 21, 2011	September 1, 2021	3.38 %	\$ 105,000,000
March 23, 2016	March 1, 2026	2.86	22,500,000
September 21, 2016	September 1, 2026	2.41	25,000,000
September 20, 2017	September 1, 2027	2.87	31,500,000
Weighted Average Rate / Total		3.19 %	\$ 184,000,000

Issuance Dates	Maturity	Fixed All-in Coupon Rate ⁽¹⁾	As of September 30, 2017 Principal Balance
March 29, 2011	March 1, 2021	4.37 %	\$ 15,000,000
September 21, 2011	September 1, 2021	3.38	105,000,000
March 23, 2016	March 1, 2026	2.86	22,500,000
September 21, 2016	September 1, 2026	2.41	25,000,000
September 20, 2017	September 1, 2027	2.87	31,500,000
Weighted Average Rate / Total		3.19 %	\$ 199,000,000

⁽¹⁾Excluding 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of December 31, 2017, our SBIC Funds were in compliance with their regulatory requirements.

2019 Notes

As of December 31, 2017 and September 30, 2017, we had \$250.0 million in aggregate principal amount of 2019 Notes outstanding. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility. The 2019 Notes may be repurchased from time to time in open market purchases and privately-negotiated transactions.

11. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt and equity investments, if any, are disclosed in the Consolidated Schedules of Investments. Under these arrangements, we may be required to supply a letter of credit to a third party if the portfolio company were to request a letter of credit. As of December 31, 2017 and September 30, 2017, we had \$37.5 million and \$21.6 million, respectively, in commitments to fund investments. For the same periods, there were no letter of credits issued.

12. SUBSEQUENT EVENTS

We entered into the Second Amended and Restated Investment Advisory Management Agreement, dated February 6, 2018, between the Company and the Investment Adviser to implement the previously announced permanent reductions in base management and incentive fees. Under the agreement, (i) base management fees are 1.50% of the Company's "average adjusted gross assets", (ii) the income-based incentive fee is 17.5% of the Company's pre-incentive fee net investment income (subject to a 7.00% annualized "hurdle rate" and 100% "catch-up" with a ceiling of 8.4848%) and (iii) the capital gains incentive fee is 17.5% of the Company's cumulative net realized capital gains.

Subsequent to quarter-end, \$21.2 million of our equity investments have been monetized.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of PennantPark Investment Corporation and its Subsidiaries

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (collectively referred to as the "Company"), including the consolidated schedule of investments as of December 31, 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the three-month periods ended December 31, 2017 and 2016, and the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statement of assets and liabilities of the Company, including the consolidated schedule of investments, as of September 30, 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 29, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments as of September 30, 2017, is fairly stated, in all material respects, in relation to the consolidated statement of assets and liabilities from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the company's management. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures 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 PCAOB, the objective of which is the expression of an opinion regarding the interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ RSM US LLP

New York, New York

February 7, 2018

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 future financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our Company, our industry, our beliefs and our assumptions. The forward-looking statements contained in this Report involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of investments that we expect to make;
- the impact of fluctuations in interest rates and foreign exchange rates on our business and our portfolio companies;
- our contractual arrangements and relationships with third parties;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- the ability of our prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital;

- the timing of cash flows, if any, from the operations of our prospective portfolio companies;
- the impact of price and volume fluctuations in the stock market;
- the ability of our Investment Adviser to locate suitable investments for us and to monitor and administer our investments;
- the impact of future legislation and regulation on our business and our portfolio companies; and
- the impact of European sovereign debt, Brexit and other world economic and political issues.

We use words such as “anticipates,” “believes,” “expects,” “intends,” “seeks,” “plans,” “estimates” and similar expressions to identify forward-looking statements. You should not place undue influence on the forward-looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason.

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, as amended, or the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

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

Overview

PennantPark Investment Corporation is a BDC whose objectives are to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments primarily made to U.S. middle-market companies in the form of first lien secured debt, second lien secured debt and subordinated 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 first lien secured debt, second lien secured debt, subordinated debt and equity investments by investing approximately \$10 million to \$50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term “middle-market” to refer to companies with annual revenues between \$50 million and \$1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor’s system) from the national rating agencies. Securities rated below investment grade are often referred to as “leveraged loans” or “high yield” securities or “junk bonds” and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our debt capital, 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 I and SBIC II, were organized as Delaware limited partnerships in 2010 and 2012, respectively. SBIC I and SBIC II received licenses from the SBA to operate as SBICs under Section 301(c) of the 1958 Act. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA eligible businesses that meet the investment selection criteria used by PennantPark Investment.

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, provides overall supervision of our activities, and the Investment Adviser supervises our day-to-day activities.

Revenues

We generate revenue in the form of interest income on the debt securities we hold and capital gains and dividends, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of first lien secured debt, second lien secured debt or subordinated debt, typically have a term 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, 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 significant managerial assistance and possibly consulting fees. Loan origination fees, OID and market discount or premium and deferred financing cost on financing costs on liabilities, which we do not fair value, are capitalized and accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

Expenses

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

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complementary businesses;
- expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees and any exchange listing fees;
- federal, state, local and foreign taxes;

• independent directors' fees and expenses;

• brokerage commissions;

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

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

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

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

• all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

Generally, during periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

PORTFOLIO AND INVESTMENT ACTIVITY

As of December 31, 2017, our portfolio totaled \$1,100.6 million and consisted of \$444.9 million of first lien secured debt, \$375.6 million of second lien secured debt, \$107.2 million of subordinated debt and \$172.9 million of preferred and common equity. Our debt portfolio consisted of 82% variable-rate investments (including 12% where LIBOR was below the floor) and 18% fixed-rate investments. As of December 31, 2017, we had no companies on non-accrual. Overall, the portfolio had net unrealized depreciation of \$63.2 million as of December 31, 2017. Our overall portfolio consisted of 57 companies with an average investment size of \$19.3 million, had a weighted average yield on interest bearing debt investments of 11.8% and was invested 40% in first lien secured debt, 34% in second lien secured debt, 10% in subordinated debt and 16% in preferred and common equity.

As of September 30, 2017, our portfolio totaled \$1,153.6 million and consisted of \$466.1 million of first lien secured debt, \$399.5 million of second lien secured debt, \$120.7 million of subordinated debt and \$167.3 million of preferred and common equity. Our debt portfolio consisted of 82% variable-rate investments (including 13% where LIBOR was below the floor) and 18% fixed-rate investments. As of September 30, 2017, we had no companies on non-accrual. Overall, the portfolio had net unrealized depreciation of \$56.4 million as of September 30, 2017. Our overall portfolio consisted of 55 companies with an average investment size of \$21.0 million, had a weighted average yield on interest bearing debt investments of 11.5% and was invested 40% in first lien secured debt, 35% in second lien secured debt, 10% in subordinated debt and 15% in preferred and common equity.

For the three months ended December 31, 2017, we invested \$138.4 million in five new and seven existing portfolio companies with a weighted average yield on debt investments of 10.8%. Sales and repayments of investments for the three months ended December 31, 2017 totaled \$192.3 million.

For the three months ended December 31, 2016, we invested \$229.2 million in nine new and seven existing portfolio companies with a weighted average yield on debt investments of 11.2%. Sales and repayments of investments for the three months ended December 31, 2016 totaled \$64.2 million.

CRITICAL ACCOUNTING POLICIES

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

Investment Valuations

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

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

(1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;

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

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

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, our 2019 Notes and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility, the 2019 Notes and the 2025 Notes. We elected to use the fair value option for the Credit Facility, the 2019 Notes 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. During both the three months ended December 31, 2017 and 2016 we did not incur any expenses relating to amendment costs on the Credit Facility. 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

Statements of Assets and Liabilities and changes in fair value of the Credit Facility, the 2019 Notes and the 2025 Notes are reported in our Consolidated Statements 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, 2017, our Credit Facility and the 2019 Notes had a net change in unrealized depreciation of \$1.1 million. For the three months ended December 31, 2016, our Credit Facility, the 2019 Notes and the 2025 Notes had a net change in unrealized depreciation of \$5.8 million. As of December 31, 2017 and September 30, 2017, net unrealized appreciation on our Credit Facility and the 2019 Notes totaled \$1.2 million and \$2.3 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility and the 2019 Notes in a manner consistent with the valuation process that the board of directors uses to value our investments.

Revenue Recognition

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not 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, OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. 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. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

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

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair value of our portfolio investments, our Credit Facility, the 2019 Notes and the 2025 Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Foreign Currency Translation

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

1. Fair value of investment securities, other assets and liabilities – at the exchange rates prevailing at the end of the applicable period; and

2. Purchases and sales of investment securities, income and expenses – at the exchange rates prevailing on the respective dates of such transactions.

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

Payment-in-Kind Interest or PIK

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. In order for us to maintain our ability to be subject to tax as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends for U.S. federal income tax purposes, even though we may not have collected any cash with respect to interest on PIK securities.

Federal Income Taxes

We have elected to be treated, and intend to qualify annually to maintain our election to be treated, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain annual source-of-income and quarterly asset diversification requirements. We also must annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 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, or investment company taxable income, determined without regard to any deduction for dividends paid.

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 dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of the excess, if any, of our capital gains over our capital losses, or capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we did not incur any federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net 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 investment company taxable income, contingent on maintaining our ability to be subject to tax as a RIC, in order 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 net realized gain recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their appropriate tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

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

RESULTS OF OPERATIONS

Set forth below are the results of operations for the three months ended December 31, 2017 and 2016.

Investment Income

Investment income for the three months ended December 31, 2017 was \$28.7 million and was attributable to \$12.7 million from first lien secured debt, \$12.9 million from second lien secured debt and \$3.1 million from subordinated debt, respectively. Investment income for the three months ended December 31, 2016 was \$31.9 million and was

attributable to \$13.2 million from first lien secured debt, \$12.7 million from second lien secured debt, \$4.9 million from subordinated debt and \$1.1 million from preferred and common equity. The decrease in investment income compared to the same period in the prior year was primarily due to a reduction of our portfolio at cost.

Expenses

Net expenses for the three months ended December 31, 2017 totaled \$14.5 million. Base management fee for the same period totaled \$4.8 million (after a base management fee waiver of \$0.9 million), incentive fee totaled \$2.7 million (after an incentive fee waiver of \$0.5 million), debt related interest and expenses totaled \$5.9 million and general and administrative expenses totaled \$1.1 million. Net expenses for the three months ended December 31, 2016 totaled \$16.8 million. Base management fee for the same period totaled \$5.3 million (after a base management fee waiver of \$1.0 million), incentive fee totaled \$2.9 million (after an incentive fee waiver of \$0.5 million), debt related interest and expenses totaled \$6.7 million, general and administrative expenses totaled \$1.5 million and provision for taxes totaled \$0.4 million. The decrease in expenses compared to the same period in the prior year was primarily due to a decrease in debt related interest and expenses and base management fees.

Net Investment Income

Net investment income totaled \$14.2 million, or \$0.20 per share, for the three months ended December 31, 2017, and \$15.0 million, or \$0.21 per share, for the three months ended December 31, 2016. The decrease in net investment income per share compared to the same period in the prior year was primarily due to a reduction of our portfolio at cost.

Net Realized Gains or Losses

Sales and repayments of investments for the three months ended December 31, 2017 totaled \$192.3 million and net realized gains totaled \$3.8 million. Sales and repayments of investments for the three months ended December 31, 2016 totaled \$64.2 million and net realized losses totaled \$22.2 million. The change in realized gains (losses) was primarily due to changes in the market conditions of our investments and the values at which they were realized.

Unrealized Appreciation or Depreciation on Investments, Credit Facility, the 2019 Notes and the 2025 Notes

For the three months ended December 31, 2017 and 2016, we reported net change in unrealized (depreciation) appreciation on investments of \$(6.8) million and \$25.4 million, respectively. As of December 31, 2017 and September 30, 2017, our net unrealized depreciation on investments totaled \$63.2 million and \$56.4 million,

respectively. The net change in unrealized (depreciation) appreciation on our investments was driven primarily by changes in the capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized depreciation (appreciation) of investments that were realized.

For the three months ended December 31, 2017, our Credit Facility and the 2019 Notes had a net change in unrealized depreciation of \$1.1 million. For the three months ended December 31, 2016, our Credit Facility, the 2019 Notes and the 2025 Notes had a net change in unrealized depreciation of \$5.8 million. As of December 31, 2017 and September 30, 2017, net unrealized appreciation on the Credit Facility and the 2019 Notes totaled \$1.2 million and \$2.3 million, respectively. The change in net unrealized depreciation compared to the same period in the prior year was primarily due to changes in the capital markets.

Net Change in Net Assets Resulting From Operations

Net change in net assets resulting from operations totaled \$12.3 million, or \$0.18 per share, for the three months ended December 31, 2017. This compares to a net change in net assets resulting from operations of \$24.0 million, or \$0.34 per share, for the three months ended December 31, 2016. The decrease in the net change in net assets from operations compared to the same period in the prior year was primarily due to the reduction of our portfolio and depreciation of our investments.

LIQUIDITY AND CAPITAL RESOURCES

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

The annualized weighted average cost of debt for the three months ended December 31, 2017 and 2016, inclusive of the fee on the undrawn commitment and amendment costs on the Credit Facility, amortized upfront fees on SBA debentures and debt issuance costs, was 4.32% and 4.51%, respectively.

As of December 31, 2017, we had a \$445 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, 2017 and September 30, 2017, there was \$79.4 million in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate of 2.47% and 2.42%, respectively, exclusive of the fee on undrawn commitments of 0.375%, as of December 31, 2017 and September 30, 2017. The Credit Facility is a five-year revolving facility with a stated maturity date of May 25, 2022, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. As of December 31, 2017 and September 30, 2017, we had \$365.6 million of unused borrowing capacity under our Credit Facility, subject to the regulatory restrictions. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

For a complete list of covenants contained in the Credit Facility, see the Credit Facility agreement filed as Exhibit 10.1 on our Form 10-Q filed August 7, 2017 and incorporated by reference therein. As of December 31, 2017, we were in compliance with the terms of our Credit Facility.

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

We may raise additional equity or debt capital through both registered offerings off our shelf registration statement and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA, among other sources. Any future additional debt capital we incur, to the extent it is available, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility, SBA debentures or our 2019 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 such as our stock repurchase program.

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 I with \$75.0 million of equity capital and it had SBA debentures outstanding of \$105.0 million as of December 31, 2017. We have funded SBIC II with \$75.0 million of equity capital and it had SBA debentures outstanding of \$79.0 million as of December 31, 2017. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of \$150.0 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$350.0 million in the aggregate.

As of December 31, 2017 and September 30, 2017, our SBIC Funds had \$300.0 million in debt commitments, respectively, of which \$184.0 million and \$199.0 million was drawn, respectively. As of December 31, 2017 and September 30, 2017, the unamortized fees on the SBA debentures was \$4.3 million and \$4.6 million, respectively. The SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures as of December 31, 2017 and September 30, 2017 were as follows:

Issuance Dates	Maturity	Fixed All-in Coupon Rate ⁽¹⁾	As of December 31, 2017 Principal Balance
September 21, 2011	September 1, 2021	3.38 %	\$ 105,000,000
March 23, 2016	March 1, 2026	2.86	22,500,000
September 21, 2016	September 1, 2026	2.41	25,000,000
September 20, 2017	September 1, 2027	2.87	31,500,000
Weighted Average Rate / Total		3.19 %	\$ 184,000,000

Issuance Dates	Maturity	Fixed All-in Coupon Rate ⁽¹⁾	As of September 30, 2017 Principal Balance
March 29, 2011	March 1, 2021	4.37 %	\$ 15,000,000
September 21, 2011	September 1, 2021	3.38	105,000,000

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March 23, 2016	March 1, 2026	2.86	22,500,000
September 21, 2016	September 1, 2026	2.41	25,000,000
September 20, 2017	September 1, 2027	2.87	31,500,000
Weighted Average Rate / Total		3.19	% \$ 199,000,000

⁽¹⁾Excluding 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of December 31, 2017, 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 required asset coverage ratio is met after such borrowing. As of December 31, 2017 and September 30, 2017, we excluded the principal amounts of our SBA debentures from our asset coverage ratio

pursuant to SEC exemptive relief. In 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage ratio requirement to exclude the SBA debentures from the calculation. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% which, while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

At December 31, 2017 and September 30, 2017, we had cash and cash equivalents of \$72.8 million and \$38.2 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities provided cash of \$62.4 million for the three months ended December 31, 2017, and our financing activities used cash of \$27.8 million for the same period. Our operating activities provided cash from sales and repayments on our investments and our financing activities used cash primarily to pay distributions to stockholders and repay the SBA debentures.

Our operating activities used cash of \$108.3 million for the three months ended December 31, 2016, and our financing activities provided cash of \$77.9 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily for net borrowings under the Credit Facility.

Contractual Obligations

A summary of our significant contractual payment obligations at cost as of December 31, 2017, including borrowings under our various debt facilities and other contractual obligations, is as follows:

	Payments due by period (in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$79.4	\$ —	\$—	\$79.4	\$ —
SBA debentures	184.0	—	—	105.0	79.0
2019 Notes	250.0	—	250.0	—	—
Total debt outstanding ⁽¹⁾	513.4	—	250.0	184.4	79.0
Unfunded investments ⁽²⁾	37.5	0.4	1.9	19.4	15.8
Total contractual obligations	\$550.9	\$ 0.4	\$251.9	\$203.8	\$ 94.8

⁽¹⁾The annualized weighted average cost of debt as of December 31, 2017, excluding debt issuance costs, was 3.68% exclusive of the fee on the undrawn commitment on the Credit Facility and 3.43% of upfront fees on SBA debentures.

(2) Unfunded debt and equity investments are disclosed in the Consolidated Schedule of Investments and Note 11 of our Consolidated Financial Statements

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 2018, PennantPark Investment Advisers serves as our investment adviser. 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 2018, the 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 significant managerial assistance to our portfolio companies, we or the Administrator will be paid an additional amount based on the services provided. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

If any of our contractual obligations discussed above are 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.

Off-Balance-Sheet Arrangements

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

Distributions

In order to be treated as a RIC for federal income tax purposes and to not be subject to corporate-level tax on undistributed income or gains, we are required, under Subchapter M of the Code, to annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount

generally at least equal to 90% of our investment company taxable income, determined without regard to any deduction for dividends paid.

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 dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we did not incur any federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net 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 investment company taxable income, contingent on our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

During the three months ended December 31, 2017 and 2016, we declared distributions of \$0.18 and \$0.28 per share, respectively, for total distributions of \$12.8 million and \$19.9 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, common stockholders will be notified of the portion of those distributions deemed to be a tax return of capital. Tax characteristics of all distributions will be reported to stockholders subject to information reporting 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 our ability to be subject to tax as a RIC. We cannot assure stockholders that they will receive any distributions at a particular level.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity’s revenue across industries, transactions, and geographies. An amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017. Public business entities are permitted to apply the new guidance early, but not before the original effective date (i.e., interim periods within annual periods beginning after December 15, 2016). The Company has evaluated this guidance and determined it will have no material impact on its financial statements.

Recent Developments

We entered into the Second Amended and Restated Investment Advisory Management Agreement, dated February 6, 2018, between the Company and the Investment Adviser to implement the previously announced permanent reductions in base management and incentive fees. Under the agreement, (i) base management fees are 1.50% of the Company’s “average adjusted gross assets”, (ii) the income-based incentive fee is 17.5% of the Company’s pre-incentive fee net investment income (subject to a 7.00% annualized “hurdle rate” and 100% “catch-up” with a ceiling of 8.4848%) and (iii) the capital gains incentive fee is 17.5% of the Company’s cumulative net realized capital gains.

Subsequent to quarter-end, \$21.2 million of our equity investments have been monetized.

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, 2017, our debt portfolio consisted of 82% variable-rate investments (including 12% where LIBOR was below the floor) and 18% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.

Assuming that the most recent Consolidated Statements of Assets and Liabilities was to remain constant, and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

	Change In Interest Income, Net Of Interest Expense	Change In Interest Income, Net Of Interest Expense
Change In Interest Rates	(In Thousands)	Per Share
Down 1%	\$ (5,595	) \$ (0.08)
Up 1%	\$ 6,725	\$ 0.09
Up 2%	\$ 13,403	\$ 0.19
Up 3%	\$ 20,081	\$ 0.28
Up 4%	\$ 26,760	\$ 0.38

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 Statements of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations, or net investment income. Accordingly, no assurances can be given that actual results would not differ materially from those shown above.

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

We may hedge against interest rate and foreign currency fluctuations by using standard hedging instruments such as futures, options and forward contracts or our Credit Facility subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates and foreign currencies, they may also limit our ability to participate in benefits of lower interest rates or higher exchange rates with respect to our portfolio of investments with fixed interest rates or investments denominated in foreign currencies. During the periods covered by this Report, we did not engage in interest rate hedging activities or foreign currency derivatives 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, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None of us, our Investment Adviser or 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, 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, 2017, 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 Disclosures

Not applicable.

Item 5. Other Information

None.

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 3.1 to the Registrant's Current Report on Form 8-K (File No. 814-00736), filed on December 2, 2015).
- 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).
- 10.1* Second Amended and Restated Investment Advisory Management Agreement, dated as of February 6, 2018, between the Registrant and PennantPark Investment Advisers, LLC.
- 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.

SIGNATURES

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

PENNANTPARK INVESTMENT CORPORATION

Date: February 7, 2018 By: /s/ Arthur H. Penn
Arthur H. Penn
Chief Executive Officer and Chairman of the Board of Directors

(Principal Executive Officer)

Date: February 7, 2018 By: /s/ Aviv Efrat
Aviv Efrat
Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)