

PENNANTPARK INVESTMENT CORP
Form 10-Q
February 07, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2018

OR

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

COMMISSION FILE NUMBER: 814-00736

PENNANTPARK INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

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MARYLAND 20-8250744
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

590 Madison Avenue, 15th Floor

New York, N.Y. 10022
(Address of principal executive offices) (Zip Code)

(212) 905-1000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of February 7, 2019 was 68,027,537.

PENNANTPARK INVESTMENT CORPORATION

FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2018

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PART I—CONSOLIDATED FINANCIAL INFORMATION

We are filing this Quarterly Report on Form 10-Q, or the Report, in compliance with Rule 13a-13 as promulgated by the Securities and Exchange Commission, or the SEC, under the Securities Exchange Act of 1934, as amended, or the Exchange Act. In this Report, except where context suggest otherwise, the terms “Company,” “we,” “our” or “us” refer to PennantPark Investment Corporation and its consolidated subsidiaries; “PennantPark Investment” refers to only PennantPark Investment Corporation; “our SBIC Funds” refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC I, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; “Taxable Subsidiaries” refers to PNNT Cascade Environmental Holdings, LLC, PNNT CI (Galls) Prime Investment Holdings, LLC, PNNT ecoserve, LLC, PNNT Investment Holdings, LLC and PNNT New Gulf Resources, LLC; “PennantPark Investment Advisers” or “Investment Adviser” refers to PennantPark Investment Advisers, LLC; “PennantPark Investment Administration” or “Administrator” refers to PennantPark Investment Administration, LLC; “SBA” refers to the Small Business Administration; “SBIC” refers to a small business investment company under the Small Business Investment Act of 1958, as amended, or the “1958 Act”; “Credit Facility” refers to our multi-currency, senior secured revolving credit facility, as amended and restated; “2019 Notes” refers to our 4.50% notes due 2019; “BDC” refers to a business development company under the Investment Company Act of 1940, as amended, or the “1940 Act”; “Code” refers to the Internal Revenue Code of 1986, as amended; and “RIC” refers to a regulated investment company under the Code. References to our portfolio, our investments and our business include investments we make through our SBIC Funds and other consolidated subsidiaries.

Item 1. Consolidated Financial Statements

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2018 (unaudited)	September 30, 2018
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$987,929,505 and \$896,720,950, respectively)	\$989,515,879	\$905,271,258
Non-controlled, affiliated investments (cost—\$74,369,962 and \$91,520,908, respectively)	49,057,619	78,078,331
Controlled, affiliated investments (cost—\$261,311,677 and \$255,574,317, respectively)	152,880,313	148,735,885
Total of investments (cost—\$1,323,611,144 and \$1,243,816,175, respectively)	1,191,453,811	1,132,085,474
Cash and cash equivalents (cost—\$24,657,870 and \$19,543,625, respectively)	24,653,889	19,506,154
Interest receivable	5,506,564	7,606,964
Prepaid expenses and other assets	152,544	920,235
Total assets	1,221,766,808	1,160,118,827
Liabilities		
Distributions payable	12,244,957	12,429,712
Payable for investments purchased	18,172,125	—
Credit Facility payable (cost—\$174,136,000 and \$80,520,000, respectively) (See Notes 5 and 10)	167,088,178	77,645,830
2019 Notes payable (par—\$250,000,000) (See Notes 5 and 10)	249,430,000	251,322,500
SBA debentures payable, net (par—\$150,000,000 and \$180,000,000, respectively) (See Notes 5 and 10)	145,789,777	175,373,229
Base management fee payable, net (See Note 3)	4,419,262	4,086,831
Performance-based incentive fee payable, net (See Note 3)	2,667,270	2,964,265
Interest payable on debt	5,007,094	6,576,393
Accrued other expenses	1,007,040	818,172
Total liabilities	605,825,703	531,216,932
Commitments and contingencies (See Note 11)		
Net assets		
Common stock, 68,027,537 and 69,053,958 shares issued and outstanding, respectively		
Par value \$0.001 per share and 100,000,000 shares authorized	68,028	69,054
Paid-in capital in excess of par value	796,236,224	803,729,220
Undistributed net investment income	6,333,033	6,003,360

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Accumulated net realized loss on investments	(62,157,643)	(70,687,629)
Net unrealized depreciation on investments	(132,156,359)	(111,763,780)
Net unrealized depreciation on debt	7,617,822	1,551,670
Total net assets	\$615,941,105	\$628,901,895
Total liabilities and net assets	\$1,221,766,808	\$1,160,118,827
Net asset value per share	\$9.05	\$9.11

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,	
	2018	2017
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$23,508,581	\$21,383,219
Payment in kind	1,246,016	1,284,909
Other income	618,071	1,586,642
From non-controlled, affiliated investments:		
Interest	105,105	1,215,834
Payment in kind	108,625	1,573,306
From controlled, affiliated investments:		
Interest	1,788,603	480,430
Payment in kind	5,000	1,144,085
Total investment income	27,380,001	28,668,425
Expenses:		
Base management fee (See Note 3)	4,419,262	5,735,137
Performance-based incentive fee (See Note 3)	2,667,270	3,185,204
Interest and expenses on debt (See Note 10)	6,278,847	5,857,378
Administrative services expenses (See Note 3)	521,625	521,625
Other general and administrative expenses	618,367	628,290
Expenses before Management Fees waiver and provision for taxes	14,505,371	15,927,634
Management Fees waiver (See Note 3)	—	(1,427,253)
Provision for taxes	300,000	—
Net expenses	14,805,371	14,500,381
Net investment income	12,574,630	14,168,044
Realized and unrealized loss on investments and debt:		
Net realized gain on investments on:		
Non-controlled, non-affiliated investments	3,737,919	1,793,043
Non-controlled and controlled, affiliated investments	4,792,067	1,980,440
Net realized gain on investments	8,529,986	3,773,483
Net change in unrealized depreciation on:		
Non-controlled, non-affiliated investments	(6,929,882)	1,738,065
Non-controlled and controlled, affiliated investments	(13,462,697)	(8,510,961)
Debt depreciation (See Notes 5 and 10)	6,066,152	1,126,766
Net change in unrealized depreciation on investments and debt	(14,326,427)	(5,646,130)
Net realized and unrealized loss from investments and debt	(5,796,441)	(1,872,647)
Net increase in net assets resulting from operations	\$6,778,189	\$12,295,397
Net increase in net assets resulting from operations per common share (See Note 7)	\$0.10	\$0.18

Net investment income per common share	\$0.18	\$0.20
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SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Three Months Ended December 31,	
	2018	2017
Net increase in net assets resulting from operations:		
Net investment income	\$ 12,574,630	\$ 14,168,044
Net realized gain on investments	8,529,986	3,773,483
Net change in unrealized depreciation on investments	(20,392,579)	(6,772,896)
Net change in unrealized depreciation on debt	6,066,152	1,126,766
Net increase in net assets resulting from operations	6,778,189	12,295,397
Distributions to stockholders:	(12,244,957)	(12,790,950)
Capital transactions:		
Repurchase of common stock	(7,494,022)	—
Net decrease in net assets	(12,960,790)	(495,553)
Net assets:		
Beginning of period	628,901,895	646,808,471
End of period	\$ 615,941,105	\$ 646,312,918
Undistributed net investment income, at end of period	\$ 6,333,033	\$ 4,710,289
Capital share activity:		
Shares of common stock repurchased	(1,026,421)	—

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$6,778,189	\$12,295,397
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net change in net unrealized depreciation on investments	20,392,579	6,772,896
Net change in unrealized depreciation on debt	(6,066,152)	(1,126,766)
Net realized gain on investments	(8,529,986)	(3,773,483)
Net accretion of discount and amortization of premium	(729,769)	(239,321)
Purchases of investments	(194,455,970)	(138,433,423)
Payment-in-kind income	(1,922,358)	(3,706,405)
Proceeds from dispositions of investments	125,791,017	192,303,018
Amortization of deferred financing costs	416,548	375,065
Decrease (increase) in interest receivable	2,100,400	(1,852,834)
Decrease in prepaid expenses and other assets	767,691	1,529,740
Increase (decrease) in payable for investments purchased	18,172,125	(1,014,000)
Decrease in interest payable on debt	(1,569,299)	(1,369,723)
Increase (decrease) in base management fee payable, net	332,431	(27,721)
(Decrease) increase in performance-based incentive fee payable, net	(296,995)	405,565
Increase in accrued other expenses	188,868	250,382
Net cash (used in) provided by operating activities	(38,630,681)	62,388,387
Cash flows from financing activities:		
Repurchase of common stock	(7,494,022)	—
Distributions paid to stockholders	(12,429,712)	(12,790,950)
Repayments under SBA debentures	(30,000,000)	(15,000,000)
Borrowings under Credit Facility	217,000,000	91,000,000
Repayments under Credit Facility	(123,384,000)	(91,000,000)
Net cash provided by (used in) financing activities	43,692,266	(27,790,950)
Net increase in cash equivalents	5,061,585	34,597,437
Effect of exchange rate changes on cash	86,150	33,170
Cash and cash equivalents, beginning of period	19,506,154	38,202,068
Cash and cash equivalents, end of period	\$24,653,889	\$72,832,675
Supplemental disclosure of cash flow information:		
Interest paid	\$7,431,597	\$6,852,037
Taxes paid	\$3,617	\$—
Non-cash exchanges and conversions	\$12,697,510	\$—

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2018

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread		Cost	Fair Value ⁽³⁾
				Above Index ⁽⁴⁾	Par / Shares		
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—160.7% ⁽²⁾							
First Lien Secured Debt—78.6%							
Allied America, Inc.	08/08/2022			3M			
		Business Services	9.81 %	L+700	21,358,192	\$21,057,856	\$21,384,889
Allied America, Inc. (Revolver) ⁽⁷⁾	08/08/2022	Business Services	—	—	2,000,000	—	—
American Insulated Glass, LLC	12/21/2023			3M			
		Building Materials	7.98 %	L+550	31,200,000	30,580,416	30,576,000
American Insulated Glass, LLC ⁽⁷⁾	12/21/2023	Building Materials	—	—	1,350,649	—	—
Bazaarvoice, Inc.	02/01/2024			1M			
		Printing and Publishing	8.10 %	L+575	14,887,500	14,749,371	14,738,625
Bottom Line Systems, LLC	02/13/2024			1M			
		Healthcare, Education and Childcare	10.02 %	L+750	19,583,330	19,354,443	19,583,330
Broder Bros., Co.	12/02/2022			3M			
		Consumer Products	11.31 %	L+850	31,515,152	31,516,838	31,515,152
Cano Health, LLC	12/23/2024			1M			
		Healthcare, Education and Childcare	8.58 %	L+625	37,358,331	36,817,568	37,358,331
DermaRite Industries LLC	03/03/2024			1M			
		Manufacturing / Basic Industries	9.52 %	L+700	9,825,000	9,720,195	9,557,457
Deva Holdings, Inc.	10/31/2023			3M			
		Consumer Products	8.77 %	L+625	4,520,316	4,446,372	4,520,316
Deva Holdings, Inc. ⁽⁷⁾	10/31/2022	Consumer Products	—	—	385,000	—	—
Hollander Sleep Products, LLC	06/09/2023			3M			
		Consumer Products	10.80 %	L+800	19,713,838	19,400,776	18,728,146
Impact Group, LLC	06/27/2023			3M			
		Personal, Food and Miscellaneous	9.30 %	L+650	27,410,052	27,221,921	27,273,002

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Services							
Juniper Landscaping of Florida, LLC	12/22/2023	Personal, Food and Miscellaneous Services	11.85 %	1M L+950	14,171,119	13,977,311	14,171,119
K2 Pure Solutions NoCal, L.P.	12/20/2023	Chemicals, Plastics and Rubber	7.84 %	1M L+525	27,133,333	26,727,301	26,726,333
K2 Pure Solutions NoCal, L.P. (Revolver) ⁽⁷⁾	12/20/2023	Chemicals, Plastics and Rubber	—	—	1,938,095	—	—
Ox Two, LLC	02/27/2023	Building Materials	8.77 %	1M L+625	22,110,425	21,729,644	22,110,425
Ox Two, LLC (Revolver)	02/27/2023	Building Materials	12.75 %	P+725	750,000	750,000	750,000
Ox Two, LLC (Revolver) ⁽⁷⁾	02/27/2023	Building Materials	—	—	1,750,000	—	—
Peninsula Pacific Entertainment LLC	11/13/2024	Hotels, Motels, Inns and Gaming	9.71 %	3M L+725	7,200,000	7,183,125	7,128,000
Peninsula Pacific Entertainment LLC ⁽⁷⁾	11/13/2024	Hotels, Motels, Inns and Gaming	—	—	800,000	—	(8,000)
Pestell Minerals and Ingredients Inc. ⁽¹¹⁾	06/01/2023	Beverage, Food and Tobacco	7.68 %	1M L+525	5,500,000	5,445,567	5,422,576
Provation Medical, Inc.	03/11/2023	Electronics	9.42 %	1M L+700	27,000,000	26,396,785	26,392,500
Questex, LLC	09/09/2024	Media	9.02 %	3M L+625	22,443,750	22,016,571	21,994,875
Questex, LLC (Revolver)	09/09/2024	Media	9.02 %	3M L+625	598,404	598,404	586,436
Questex, LLC (Revolver) ⁽⁷⁾	09/09/2024	Media	—	—	2,992,021	—	(59,841)
Research Horizons, LLC	06/28/2024	Media	8.60 %	1M L+625	22,359,375	21,955,122	21,800,390
Research Horizons, LLC ⁽⁷⁾	06/28/2024	Media	—	—	9,121,622	—	(228,041)
Research Horizons, LLC (Revolver)	06/28/2024	Media	8.60 %	1M L+625	810,811	810,811	790,541
Research Horizons, LLC (Revolver) ⁽⁷⁾	06/28/2024	Media	—	—	3,243,243	—	(81,081)
SFP Holding, Inc.	09/01/2022	Buildings and Real Estate	9.04 %	3M L+625	20,227,284	19,982,458	20,227,284
SFP Holding, Inc. ⁽⁷⁾	09/01/2022	Buildings and Real Estate	—	—	5,506,214	—	—
SFP Holding, Inc. (Revolver)	09/01/2022	Buildings and Real Estate	9.04 %	3M L+625	833,333	833,333	833,333
SFP Holding, Inc. (Revolver) ⁽⁷⁾	09/01/2022	Buildings and Real Estate	—	—	1,666,667	—	—
Triad Manufacturing, Inc.	12/28/2020	Manufacturing / Basic Industries	15.77 %	3M L+1,325	22,099,213	21,885,003	21,325,740
US Dominion, Inc.	07/15/2024	Electronics	9.28 %	3M L+675	29,850,000	29,358,834	29,850,000
	07/15/2024	Electronics	—	—	7,500,000	—	—

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US Dominion, Inc. (Revolver) ⁽⁷⁾							
US Med Acquisition, Inc.	08/13/2021	Healthcare, Education and Childcare	11.80 %	1M L+900	8,454,688	8,454,688	8,031,952
Walker Edison Furniture Company LLC	09/26/2024	Home and Office Furnishings	8.88 %	3M L+650	22,500,000	22,065,139	22,050,000
Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	11.53 %	1M L+900	19,183,125	18,874,578	19,183,125
Total First Lien Secured Debt						483,910,430	484,232,914
Second Lien Secured Debt—65.5%							
Condor Borrower, LLC	04/25/2025	Business Services	11.28 %	3M L+875	12,500,000	12,277,984	12,437,500
Confie Seguros Holding Co.	10/31/2025	Insurance	11.24 %	3M L+850	14,500,000	14,211,122	14,040,785
DecoPac, Inc.	03/31/2025	Beverage, Food and Tobacco	11.05 %	3M L+825	23,024,259	22,619,598	23,024,259
Halo Buyer, Inc.	07/06/2026	Consumer Products	10.77 %	1M L+825	45,000,000	44,337,844	44,325,000
Infogroup, Inc.	04/03/2024	Travel Media	12.05 %	3M L+925	20,400,000	20,068,042	20,400,000
Integrity Marketing Partners, LLC	11/30/2026	Insurance	11.21 %	3M L+850	20,769,231	20,474,544	20,561,538
Integrity Marketing Partners, LLC ⁽⁷⁾	11/30/2026	Insurance	—	—	2,373,626	—	(23,736)
Intermediate Transportation 100, LLC ⁽⁵⁾	03/01/2019	Airgo Transport	11.00 %	—	481,052	468,352	481,052
			(PIK %)				
			11.00				
MailSouth, Inc.	10/23/2024	Printing and Publishing	12.00 %	6M L+925	48,425,000	47,511,267	47,456,500
MBS Holdings, Inc.	01/02/2024	Telecommunications	10.85 %	1M L+850	15,000,000	14,720,490	14,700,000
Parq Holdings Limited Partnership ^{(8), (11)}	12/17/2021	Hotels, Motels, Inns and Gaming	14.80 %	3M L+1,200	76,500,000	76,500,000	83,062,990
PT Network, LLC	04/12/2022	Healthcare, Education and Childcare	12.43 %	3M L+1,000	41,666,667	40,989,222	41,041,667
Shift4 Payments, LLC	11/28/2025	Financial Services	11.03 %	3M L+850	37,000,000	36,844,123	36,722,500
VT Topco, Inc.	08/24/2026	Business Services	9.80 %	1M L+700	12,500,000	12,437,500	12,468,750
Winter Park Intermediate, Inc.	04/06/2026	Auto Sector	11.02 %	1M L+850	32,800,000	32,186,662	32,472,000
Total Second Lien Secured Debt						395,646,750	403,170,805
Subordinated Debt/Corporate Notes—7.8%							
Blackhawk Industrial Distribution, Inc.	03/17/2025	Distribution	12.00 %	—	13,569,534	13,307,183	13,569,534
			(PIK %)				
			2.00				

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Cascade Environmental LLC	08/20/2011	Environmental Services	15.00 % (PIK %) 13.00	—	36,955,649	36,580,410	34,553,533
Preferred Equity/Partnership Interests—0.3%							
AH Holdings, Inc.	—	Healthcare, Education and Childcare	6.00 %	—	211	500,000	462,602
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) ⁽⁹⁾	—	Healthcare, Education and Childcare	—	—	36,450	546,750	584,633
Condor Holdings Limited ^{(8), (11)}	—	Business Services	—	—	556,000	64,277	68,981
Condor Top Holdco Limited ^{(8), (11)}	—	Business Services	—	—	556,000	491,723	527,701
Total Preferred Equity/Partnership Interests						1,602,750	1,643,917
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS							

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

DECEMBER 31, 2018

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Basis Point		Par / Shares	Cost	Fair Value ⁽³⁾
			Current Coupon ⁽⁴⁾	Spread Above Index			
Common Equity/Partnership Interests/Warrants—8.5%							
AH Holdings, Inc. (Warrants)	03/23/2020	Healthcare, Education and Childcare	—	—	753	\$—	\$—
AG Investco LP ⁽⁹⁾	—	Business Services	—	—	650,000	650,000	650,000
AG Investco LP ^{(7), (9)}	—	Business Services	—	—	350,000	—	—
ASP LCG Holdings, Inc. (Warrants)	05/05/2020	Education	—	—	933	586,975	1,866,067
Autumn Games, LLC	—	Broadcasting and Entertainment	—	—	1,333,330	3,000,000	—
Cardinal Logistics Holdings LLC (Intermediate Transportation 100, LLC) ⁽⁹⁾	—	Cargo Transport	—	—	—	⁽¹³⁾ 5,411,024	3,611,080
Cascade Environmental LLC ⁽⁹⁾	—	Environmental Services	—	—	33,901	2,852,080	520,736
CI (Allied) Investment Holdings, LLC (Allied America, Inc.) ⁽⁹⁾	—	Business Services	—	—	112,001	1,153,614	1,312,852
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) ⁽⁹⁾	—	Healthcare, Education and Childcare	—	—	333,333	5,000,000	5,000,000
CI (Summit) Investment Holdings LLC	—	Buildings and Real Estate	—	—	100,000	1,000,000	1,287,386

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(SFP Holdings, Inc.)							
Cowboy Parent LLC (Blackhawk Industrial Distribution, Inc.)	—	Distribution	—	—	22,500	2,250,000	2,535,289
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	3,449	3,448,658	5,212,753
eCommission Holding Corporation ⁽¹¹⁾	—	Financial Services	—	—	80	1,004,625	1,012,082
Faraday Holdings, LLC	—	Building Materials	—	—	4,277	217,635	1,177,113
Go Dawgs Capital III, LP (American Insulated Glass, LLC) ⁽⁹⁾	—	Building Materials	—	—	675,325	675,325	675,325
Green Veracity Holdings, LP - Class A (VT Topco, Inc.)	—	Business Services	—	—	15,000	1,500,000	1,308,318
Infogroup Parent Holdings, Inc.	—	Other Media	—	—	181,495	2,040,000	1,940,195
ITC Rumba, LLC (Cano Health, LLC) ⁽⁹⁾	—	Healthcare, Education and Childcare	—	—	204,985	2,049,849	3,839,997
JWC-WE Holdings, L.P. (Walker Edison Furniture Company LLC)	—	Home and Office Furnishings	—	—	1,906,433	1,906,433	1,906,433
Kadmon Holdings, Inc. ⁽¹²⁾	—	Healthcare, Education and Childcare	—	—	252,014	2,265,639	524,189
LaMi Acquisition, LLC ⁽⁹⁾	—	Distribution	—	—	19	493,280	686,222
Lariat ecoserv Co-Invest Holdings, LLC ⁽⁹⁾	—	Environmental Services	—	—	495,249	495,249	623,125
SSC Dominion Holdings, LLC Class A (US Dominion, Inc.)	—	Electronics	—	—	1,500	1,500,000	1,500,000
SSC Dominion Holdings, LLC Class B (US Dominion, Inc.)	—	Electronics	—	—	1,500	—	552,896
U.S. Well Services, Inc. - Class A ^{(11), (12)}	—	Oil and Gas	—	—	81,383	813,830	528,990
USWS Holdings, LLC ^{(9), (11)}	—	Oil and Gas	—	—	1,188,368	11,883,680	6,372,623
WBB Equity, LLC (Whitney, Bradley & Brown, Inc.) ⁽⁹⁾	—	Aerospace and Defense	—	—	628,571	628,571	1,269,714
Wheel Pros Holdings, L.P.	—	Auto Sector			3,200,000	3,200,000	5,592,775

(Winter Park Intermediate, Inc.)							
ZS Juniper L.P.	—	Personal, Food and Miscellaneous Services	—	—	856	855,515	839,016
(Juniper Landscaping of Florida, LLC) ⁽⁹⁾							
Total Common Equity/Partnership Interests/Warrants						56,881,982	52,345,176
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						987,929,505	989,515,879
Investments in Non-Controlled, Affiliated Portfolio Companies—8.0% ⁽²⁾							
Preferred Equity—1.5%							
ETX Energy, LLC ⁽⁹⁾	—	Oil and Gas	—	—	23,269	2,326,900	9,307,600
Total Preferred Equity						2,326,900	9,307,600
Common Equity/Partnership Interests/Warrants—6.5%							
Affinion Group Holdings, Inc.	—	Consumer Products	—	—	859,496	30,503,493	16,804,236
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Products	—	—	37,181	10,265,973	16,571
ETX Energy, LLC ⁽⁹⁾	—	Oil and Gas	—	—	1,658,389	29,711,576	21,768,908
ETX Energy Management Company, LLC	—	Oil and Gas	—	—	1,754,104	1,562,020	1,160,304
Total Common Equity/Partnership Interests/Warrants						72,043,062	39,750,019
Total Investments in Non-Controlled, Affiliated Portfolio Companies						74,369,962	49,057,619

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

DECEMBER 31, 2018

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current		Basis Point		Cost	Fair Value ⁽³⁾
			Coupon	Index ⁽⁴⁾	Spread	Par / Shares		
Investments in Controlled, Affiliated Portfolio Companies—24.7% ⁽²⁾								
First Lien Secured Debt—15.1%								
AKW Holdings Limited ^{(8), (10), (11)}	03/13/2024	Healthcare, Education and Childcare	6.65 %	3M L+575	£28,000,000	\$39,051,600	\$35,660,604	
RAM Energy LLC	07/01/2024	Energy and Utilities	8.00 %	—	35,000,000	35,000,000	35,000,000	
RAM Energy LLC (Revolver)	07/01/2024	Energy and Utilities	8.00 %	—	15,000,000	15,000,000	15,000,000	
Superior Digital Displays, LLC	12/31/2024	Media	3.00 % (PIK %) 3.00	—	7,504,371	7,243,236	7,500,000	
Total First Lien Secured Debt						96,294,836	93,160,604	
Preferred Equity—1.4% ⁽²⁾								
MidOcean JF Holdings Corp.	—	Distribution	—	—	153,922	15,392,188	9,082,240	
Superior Digital Displays Holdings, Inc.	—	Media	15.00 %	—	1,416,392	46,254,586	—	
Total Preferred Equity						61,646,774	9,082,240	
Common Equity—8.2% ⁽²⁾								
AKW Holdings Limited ^{(8), (10), (11)}	—	Healthcare, Education and Childcare	—	—	£950	132,497	7,307,469	
MidOcean JF Holdings Corp.	—	Distribution	—	—	65,933	24,761,831	—	
	—		—	—	84,747	76,264,739	43,330,000	

RAM Energy Holdings LLC	Energy and Utilities						
Superior Digital Displays Holdings, Inc.	Media	—	—	—	11,100	2,211,000	—
Total Common Equity						103,370,067	50,637,469
Total Investments in Controlled, Affiliated Portfolio Companies						261,311,677	152,880,313
Total Investments—193.4%						1,323,611,144	1,191,453,811
Cash and Cash Equivalents—4.0%							
BlackRock Federal FD Institutional 30						4,846,547	4,846,547
BNY Mellon Cash Reserve and Cash						19,811,323	19,807,342
Total Cash and Cash Equivalents						24,657,870	24,653,889
Total Investments and Cash Equivalents—197.4%						\$1,348,269,014	\$1,216,107,700
Liabilities in Excess of Other Assets—(97.4%)							(600,166,595)
Net Assets—100.0%							\$615,941,105

- (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” 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), 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 includes payment-in-kind, or PIK, interest and other fee rates, if any.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (8) Non-U.S. company or principal place of business outside the United States.
- (9) Investment is held through our Taxable Subsidiaries (See Note 1).
- (10) Par / shares amount is denominated in British Pounds (£) as denoted.
- (11) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of December 31, 2018, qualifying assets represent 89% of the Company’s total assets and non-qualifying assets represent 11% of the Company’s total assets.

(12) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).

(13) Share amount is 70,443,882,243.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2018

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread		Cost	Fair Value ⁽³⁾
				Above Par / Index ⁽⁴⁾	Shares		
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—144.0% ⁽²⁾							
First Lien Secured Debt—66.9%							
Allied America, Inc.	08/08/2022	Business Services	9.39 %	3M L+700	21,435,548	\$21,116,138	\$21,478,419
Allied America, Inc. (Revolver) ⁽⁷⁾	08/08/2022	Business Services	—	—	2,000,000	—	—
Bazaarvoice, Inc.	02/01/2024	Printing and Publishing	10.24 %	1M L+800	14,925,000	14,783,825	14,925,000
Bottom Line Systems, LLC	02/13/2024	Healthcare, Education and Childcare	9.74 %	1M L+750	19,583,330	19,345,650	19,583,330
Broder Bros., Co.	12/02/2022	Consumer Products	10.33 %	3M L+800	31,676,768	31,678,078	31,676,768
Cano Health, LLC	12/23/2021	Healthcare, Education and Childcare	10.61 %	1M L+850	32,813,941	32,240,776	32,813,941
Cano Health, LLC (Revolver)	11/05/2021	Healthcare, Education and Childcare	10.68 %	1M L+850	3,150,000	3,150,000	3,150,000
DermaRite Industries LLC	03/03/2022	Manufacturing / Basic Industries	9.24 %	1M L+700	9,850,000	9,738,431	9,683,465
Deva Holdings, Inc.	10/31/2022	Consumer Products	7.74 %	3M L+550	4,962,500	4,877,212	4,962,500
Deva Holdings, Inc. ⁽⁷⁾	10/31/2022	Consumer Products	—	—	385,000	—	—
eCommission Financial Services, Inc. ⁽¹¹⁾	08/29/2022	Financial Services	9.74 %	1M L+750	19,800,000	19,475,599	19,800,000
eCommission Financial Services, Inc. ^{(7), (11)}	08/29/2022	Financial Services	—	—	4,000,000	—	—
eCommission Financial Services,	08/29/2022	Financial Services	—	—	4,000,000	—	—

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Inc. (Revolver) ^{(7), (11)}							
Hollander Sleep Products, LLC	06/09/2021	Consumer Products	10.39 %	3M L+800	19,713,838	19,386,443	19,516,699
Impact Group, LLC	06/27/2021	Personal, Food and Miscellaneous Services	8.64 %	1M L+625	22,457,923	22,225,155	22,345,634
Impact Group, LLC ⁽⁷⁾	06/27/2021	Personal, Food and Miscellaneous Services	—	—	—	—	—
					12,491,009		(62,455)
Juniper Landscaping of Florida, LLC	12/22/2021	Personal, Food and Miscellaneous Services	11.61 %	1M L+950	14,350,500	14,140,360	14,350,500
K2 Pure Solutions NoCal, L.P.	02/19/2021	Chemicals, Plastics and Rubber	11.24 %	1M L+900	14,243,249	14,033,015	14,243,249
Ox Two, LLC	02/27/2021	Building Materials	8.49 %	1M L+625	22,218,750	21,819,701	22,218,750
Ox Two, LLC (Revolver)	02/27/2021	Building Materials	12.50 %	P+725	750,000	750,000	750,000
Ox Two, LLC (Revolver) ⁽⁷⁾	02/27/2021	Building Materials	—	—	—	—	—
Questex, LLC	09/09/2021	Media	8.57 %	3M L+625	22,500,000	22,054,120	22,050,000
Questex, LLC (Revolver)	09/09/2021	Media	8.57 %	3M L+625	598,404	598,404	586,436
Questex, LLC (Revolver) ⁽⁷⁾	09/09/2021	Media	—	—	—	—	—
					2,992,021		(59,840)
Research Horizons, LLC	06/28/2021	Media	8.36 %	1M L+625	22,500,000	22,071,351	22,050,000
Research Horizons, LLC ⁽⁷⁾	06/28/2021	Media	—	—	—	—	—
					9,121,622		(182,432)
Research Horizons, LLC (Revolver)	06/28/2021	Media	8.36 %	1M L+625	1,783,784	1,783,784	1,748,108
Research Horizons, LLC (Revolver) ⁽⁷⁾	06/28/2021	Media	—	—	—	—	—
					2,270,270		(45,405)
SFP Holding, Inc.	09/01/2021	Buildings and Real Estate	8.59 %	3M L+625	20,925,313	20,642,473	20,925,313
SFP Holding, Inc. ⁽⁷⁾	09/01/2021	Buildings and Real Estate	—	—	—	—	—
					1,375,000		—
SFP Holding, Inc. (Revolver) ⁽⁷⁾	09/01/2021	Buildings and Real Estate	—	—	—	—	—
					2,500,000		—
Triad Manufacturing, Inc.	12/28/2020	Manufacturing / Basic Industries	15.49 %	1M L+1,325	23,718,379	23,464,517	23,006,827
US Dominion, Inc.	07/15/2021	Electronics	9.14 %	3M L+675	29,925,000	29,415,076	29,925,000
US Dominion, Inc. (Revolver) ⁽⁷⁾	07/15/2021	Electronics	—	—	—	—	—
					7,500,000		—
US Med Acquisition, Inc.	08/13/2021	Healthcare, Education and Childcare	11.39 %	1M L+900	8,476,563	8,476,563	8,052,732
Walker Edison Furniture Company LLC	09/26/2021	Home and Office Furnishings	8.88 %	3M L+650	22,500,000	22,050,866	22,050,000

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Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	11.25 %	1M L+900	19,305,000	18,977,907	19,305,000
Total First Lien Secured Debt						418,295,444	420,847,539
Second Lien Secured Debt—62.2%							
Condor Borrower, LLC	04/25/2015	Business Services	11.09 %	3M L+875	12,500,000	12,271,734	12,500,000
DecoPac, Inc.	03/31/2025	Beverage, Food and Tobacco	10.64 %	3M L+825	23,024,259	22,607,675	23,024,259
Halo Buyer, Inc.	07/06/2026	Consumer Products	10.49 %	1M L+825	45,000,000	44,338,109	44,325,000
Infogroup, Inc.	04/03/2024	Printer Media	11.64 %	3M L+925	20,400,000	20,056,087	20,400,000
Integrity Marketing Partners, LLC	01/02/2021	Banking, Finance, Insurance and Real Estate	11.17 %	1M L+900	6,000,000	5,913,341	5,987,443
Intermediate Transportation 100, LLC ⁽⁵⁾	03/01/2019	Airgo Transport	11.00 %	—	481,052	447,988	481,052
			(PIK %) 11.00				
MailSouth, Inc.	10/23/2024	Printing and Publishing	12.00 %	3M L+925	48,425,000	47,496,549	47,456,500
MBS Holdings, Inc.	01/02/2024	Telecommunications	10.60 %	1M L+850	15,000,000	14,710,035	14,700,000
Parq Holdings Limited Partnership ^{(8), (11)}	12/17/2021	Hotels, Motels, Inns and Gaming	14.39 %	3M L+1,200	76,500,000	76,500,000	80,904,325
Pathway Partners Vet Management LLC	10/10/2025	Healthcare, Education and Childcare	10.24 %	1M L+800	19,300,700	19,246,644	19,107,693
Pathway Partners Vet Management LLC ⁽⁷⁾	10/10/2025	Healthcare, Education and Childcare	—	—	4,699,300	—	(46,993)
PT Network, LLC	04/12/2021	Healthcare, Education and Childcare	12.34 %	3M L+1,000	41,666,667	40,959,198	41,250,000
Shift4 Payments, LLC	11/28/2025	Financial Services	10.84 %	3M L+850	37,000,000	36,835,458	36,768,750
VT Topco, Inc.	08/24/2026	Business Services	9.34 %	3M L+700	12,500,000	12,437,500	12,500,000
Winter Park Intermediate, Inc.	04/03/2026	Auto Sector	10.62 %	1M L+850	32,000,000	31,380,959	31,680,000
Total Second Lien Secured Debt						385,201,277	391,038,029
Subordinated Debt/Corporate Notes—7.7%							
Blackhawk Industrial Distribution, Inc.	03/17/2025	Distribution	12.00 %	—	13,500,000	13,230,411	13,230,000
			(PIK %) 2.00				
Cascade Environmental LLC	08/20/2024	Environmental Services	15.00 %	—	35,792,396	35,386,702	34,897,586
			(PIK %) 13.00				
Preferred Equity/Partnership Interests—0.2%						48,617,113	48,127,586

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AH Holdings, Inc.	—	Healthcare, Education and Childcare	6.00 %	—	211	500,000	396,898
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) (9)	—	Healthcare, Education and Childcare	—	—	36,450	546,750	565,339
Condor Holdings Limited (8), (11)	—	Business Services	—	—	556,000	64,277	64,277
Condor Top Holdco Limited (8), (11)	—	Business Services	—	—	556,000	491,723	491,723
HW Holdco, LLC	—	Other Media	8.00 %	—	3,591	—	25,771
Total Preferred Equity/Partnership Interests						1,602,750	1,544,008

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)

SEPTEMBER 30, 2018

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread		Cost	Fair Value ⁽³⁾
				Above Index ⁽⁴⁾	Par / Shares		
Common Equity/Partnership Interests/Warrants—7.0%							
AH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare	—	—	753	\$—	\$—
ASP LCG Holdings, Inc. (Warrants)	05/05/2026	Education	—	—	933	586,975	1,651,653
Autumn Games, LLC	—	Broadcasting and Entertainment	—	—	1,333,330	3,000,000	—
Cardinal Logistics Holdings LLC (Intermediate Transportation 100, LLC) ⁽⁹⁾	—	Cargo Transport	—	—	—	⁽¹³⁾ 5,411,024	2,776,777
Cascade Environmental LLC ⁽⁹⁾	—	Environmental Services	—	—	33,901	2,852,080	1,186,539
CI (Allied) Investment Holdings, LLC (Allied America, Inc.) ⁽⁹⁾	—	Business Services	—	—	84,000	840,004	957,866
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) ⁽⁹⁾	—	Healthcare, Education and Childcare	—	—	333,333	5,000,000	5,000,000
CI (Summit) Investment Holdings LLC (SFP Holdings, Inc.)	—	Buildings and Real Estate	—	—	100,000	1,000,000	1,245,827

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Cowboy Parent LLC (Blackhawk Industrial Distribution, Inc.)	—	Distribution	—	—	2,250,000	2,250,000	2,250,000
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	3,449	3,448,658	4,165,759
eCommission Holding Corporation (11)	—	Financial Services	—	—	80	800,000	1,049,378
Faraday Holdings, LLC	—	Building Materials	—	—	4,277	217,635	1,147,011
Green Veracity Holdings, LP - Class A (VT Topco, Inc.)	—	Business Services	—	—	15,000	1,500,000	1,500,000
HW Holdco, LLC	—	Other Media	—	—	388,378	—	2,787,265
Infogroup Parent Holdings, Inc.	—	Other Media	—	—	181,495	2,040,000	2,167,874
ITC Rumba, LLC (Cano Health, LLC) (9)	—	Healthcare, Education and Childcare	—	—	204,985	2,049,849	3,654,472
JWC-WE Holdings, L.P. (Walker Edison Furniture Company LLC)	—	Home and Office Furnishings	—	—	1,906,433	1,906,433	1,906,433
Kadmon Holdings, Inc. (12)	—	Healthcare, Education and Childcare	—	—	252,014	2,265,639	841,727
LaMi Acquisition, LLC (9)	—	Distribution	—	—	19	493,280	522,889
Lariat ecoserv Co-Invest Holdings, LLC (9)	—	Environmental Services	—	—	1,148,703	1,158,703	672,195
SSC Dominion Holdings, LLC Class A (US Dominion, Inc.)	—	Electronics	—	—	1,500	1,500,000	1,500,000
SSC Dominion Holdings, LLC Class B (US Dominion, Inc.)	—	Electronics	—	—	1,500	—	—
WBB Equity, LLC (Whitney, Bradley & Brown, Inc.) (9)	—	Aerospace and Defense	—	—	628,571	628,571	1,181,714
Wheel Pros Holdings, L.P. (Winter Park Intermediate, Inc.)	—	Auto Sector	—	—	3,200,000	3,200,000	4,513,118
ZS Juniper L.P.	—		—	—	856	855,515	1,035,599

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Personal, Food and
Miscellaneous
Services

(Juniper
Landscaping of
Florida, LLC) ⁽⁹⁾

Total Common Equity/Partnership Interests/Warrants					43,004,366	43,714,096	
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies					896,720,950	905,271,258	
Investments in Non-Controlled, Affiliated Portfolio Companies—12.4% ⁽²⁾							
First Lien Secured Debt—1.9%							
U.S. Well Services, 02/02/2021 and Gas LLC			13.08 %	1M L+1,100	10,160,537	10,098,625	10,160,537
			(PIK %) 13.08				
U.S. Well Services, 02/02/2021 and Gas LLC (Revolver)			8.08 %	1M L+600	1,680,528	1,680,528	1,680,528
U.S. Well Services, 02/02/2021 and Gas LLC (Revolver) ⁽⁷⁾			—	—	511,893	—	—
Total First Lien Secured Debt						11,779,153	11,841,065
Common Equity/Partnership Interests/Warrants—10.5% ⁽⁸⁾							
Affinion Group Holdings, Inc.	—	Consumer Products	—	—	859,496	30,503,493	18,137,081
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Products	—	—	37,181	10,265,973	29,841
Big Run, Inc.	—	Environmental Services	—	—	143,668	674,943	397,025
ETX Energy, LLC ⁽⁹⁾	—	Oil and Gas	—	—	1,658,389	29,711,576	33,040,294
ETX Energy Management Company, LLC	—	Oil and Gas	—	—	1,754,104	1,562,020	1,761,079
USWS Holdings, LLC - Class A and Class B ⁽⁹⁾	—	Oil and Gas	—	—	8,190,817	7,023,750	12,871,946
Total Common Equity/Partnership Interests/Warrants						79,741,755	66,237,266
Total Investments in Non-Controlled, Affiliated Portfolio Companies						91,520,908	78,078,331

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)

SEPTEMBER 30, 2018

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread		Par / Shares	Cost	Fair Value ⁽³⁾	
				Above Index ⁽⁴⁾	Par /				
Investments in Controlled, Affiliated Portfolio Companies—23.6% ⁽²⁾									
First Lien Secured Debt—15.7%									
AKW Holdings Limited ^{(8), (10), (11)}	03/13/2024	Healthcare, Education and Childcare	6.55 %	3M L+575	£28,000,000	\$39,051,600	\$36,513,484		
RAM Energy LLC	07/01/2022	Energy and Utilities	8.00 %	—	35,000,000	35,000,000	35,000,000		
RAM Energy LLC (Revolver)	07/01/2022	Energy and Utilities	8.00 %	—	10,000,000	10,000,000	10,000,000		
RAM Energy LLC (Revolver) ⁽⁷⁾	07/01/2022	Energy and Utilities	—	—	5,000,000	—	—		
Superior Digital Displays, LLC	12/31/2024	Media	7.84 % (PIK %) 7.84	3M L+550	23,208,601	22,749,435	17,220,000		
Total First Lien Secured Debt							106,801,035	98,733,484	
Preferred Equity—1.9%									
MidOcean JF Holdings Corp.	—	Distribution	—	—	153,922	15,392,189	12,099,647		
Superior Digital Displays Holdings, Inc.	—	Media	15.00 %	—	873,289	30,011,026	—		
Total Preferred Equity							45,403,215	12,099,647	
Common Equity—6.0%									
AKW Holdings Limited ^{(8), (10), (11)}	—	Healthcare, Education and Childcare	—	—	£950	132,497	3,987,794		
MidOcean JF Holdings Corp.	—	Distribution	—	—	65,933	24,761,831	—		
	—		—	—	84,747	76,264,739	33,914,960		

RAM Energy Holdings LLC	Energy and Utilities						
Superior Digital Displays Holdings, Inc.	Media	—	—	11,100	2,211,000	—	
Total Common Equity					103,370,067	37,902,754	
Total Investments in Controlled, Affiliated Portfolio Companies					255,574,317	148,735,885	
Total Investments—180.0%					1,243,816,175	1,132,085,474	
Cash and Cash Equivalents—3.1%							
BlackRock Federal FD Institutional 30					531,379	531,379	
BNY Mellon Cash Reserve and Cash					19,012,246	18,974,775	
Total Cash and Cash Equivalents					19,543,625	19,506,154	
Total Investments and Cash Equivalents—183.1%					\$1,263,359,800	\$1,151,591,628	
Liabilities in Excess of Other Assets—(83.1%)						(522,689,733)	
Net Assets—100.0%						\$628,901,895	

- (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 LIBOR “L” 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), 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 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) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (8) Non-U.S. company or principal place of business outside the United States.
- (9) Investment is held through our Taxable Subsidiaries (See Note 1).
- (10) Par / shares amount is denominated in British Pounds (£) as denoted.
- (11) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2018, qualifying assets represent 88% of the Company’s total assets and non-qualifying assets represent 12% of the Company’s total assets.
- (12)

The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).

(13) Share amount is 70,443,882,243.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(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, including the Taxable Subsidiaries, which are subject to tax as corporations. These taxable subsidiaries allow us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while facilitating our ability to qualify as a RIC under the Code.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the Financial Accounting Standards Board'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 Topic 946, Financial Services – Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and Articles 6, 10 and 12 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

Our significant accounting policies consistently applied are as follows:

(a) Investment Valuations

We expect that there may not be readily available market values for many of 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. 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 the Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of the 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, the Credit Facility and the 2019 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. 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.

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

(c)Income Taxes

We have complied with the requirements of Subchapter M of the Code and have qualified to be treated as a RIC for federal income tax purposes. In this regard, we account for income taxes using the asset and liability method prescribed by ASC Topic 740, Income Taxes, or ASC 740. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon our qualification and election to be treated as a RIC, we do not anticipate incurring any material federal income taxes. However, we may choose to retain a portion of our calendar year income, which may result in the imposition of an excise tax. Additionally, certain of the Company's consolidated subsidiaries are subject to U.S. federal and state income taxes. For the three months ended December 31, 2018 and 2017, we recorded a provision for taxes of \$0.3 million (\$0.1 million of excise tax and \$0.2 million of U.S. federal and state income taxes related to the Taxable Subsidiaries) and zero, respectively.

We recognize the effect of a tax position in our Consolidated Financial Statements in accordance with ASC 740 when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax positions not considered to satisfy the "more-likely-than-not" threshold would be recorded as a tax expense or benefit. Penalties or interest, if applicable, that may be assessed relating to income taxes would be classified as other operating expenses in the financial statements. As of December 31, 2018, there were no tax accruals relating to uncertain tax positions and no amounts accrued for any related interest or penalties with respect to the periods presented herein. The Company's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although the Company files both federal and state income tax returns, the Company's major tax jurisdiction is federal.

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

(d)Distributions and Capital Transactions

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

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

(e) Foreign Currency Translation

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

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

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

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 paragraph 946-810-45-3, PennantPark Investment will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we have consolidated the results of our SBIC Funds and our Taxable Subsidiaries in our Consolidated Financial Statements.

(g)Recent Accounting Pronouncements

In August 2018, the FASB issued Accounting Standards Update, or ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which changes the fair value measurement disclosure requirements of ASC 820. The key provisions include new, eliminated and modified disclosure requirements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early application is permitted. The Company is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

In August 2018, the SEC issued the Final Rule Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments are intended to facilitate the disclosure of information to investors and simplify compliance. The final rule was effective on November 5, 2018. We but do not anticipate the impact of this final rule to have a material impact on our consolidated financial statements.

3. AGREEMENTS AND RELATED PARTY TRANSACTIONS

Under the Investment Management Agreement, as amended and restated on February 5, 2019, we implemented the previously announced permanent reductions in base management and incentive fees, effective January 1, 2018. The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2019. Under

the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us, consisting of two components— a base management fee and an incentive fee or, collectively, Management Fees.

Effective January 1, 2018, the base management fee is calculated at an annual rate of 1.50% of our “average adjusted gross assets,” which equals our gross assets (exclusive of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and unfunded commitments, if any) and is payable quarterly in arrears. In addition, on November 13, 2018, in connection with our board of directors' approval of the application of the modified asset coverage requirements to the Company, our board of directors also approved an amendment to the Investment Advisory Agreement reducing the Investment Adviser's annual base management fee from 1.50% to 1.00% on gross assets that exceed 200% of the Company's total net assets as of the immediately preceding quarter-end. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For periods prior to January 1, 2018, the base management fee was calculated at an annual rate of 2.00% of our “average adjusted gross assets.” From December 31, 2015 through December 31, 2017, the Investment Adviser voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of base management fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2018 and 2017, the Investment Adviser earned a base management fee of \$4.4 million and \$4.8 million (after a waiver of \$0.9 million), respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). Effective January 1, 2018, we pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1212% in any calendar quarter (8.4848% annualized), and (3) 17.5% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1212% in any

calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For periods prior to January 1, 2018, we paid the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income did 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 exceeded the hurdle rate but was 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 exceeded 2.1875% in any calendar quarter. From December 31, 2015 through December 31, 2017, the Investment Adviser voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of 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, 2018 and 2017, the Investment Adviser earned \$2.7 million and \$2.7 million (after a waiver of \$0.5 million), respectively, in incentive fees on net investment income from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and, effective January 1, 2018, equals 17.5% of our realized capital gains (20.0% for periods prior to January 1, 2018), 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, 2018 and 2017, the Investment Adviser did not accrue an incentive fee on capital gains as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments 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

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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 17.5% of such amount (20.0% for periods prior to 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, 2018 and 2017, 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 2019. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. The Administrator provides similar services to our SBIC Funds under each of their administration agreements with PennantPark Investment. For providing these services, facilities and personnel, 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 both the three months ended December 31, 2018 and 2017, we reimbursed the Investment Adviser approximately \$0.3 million, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

There were no transactions subject to Rule 17a-7 under the 1940 Act during both the three months ended December 31, 2018 and 2017.

4. INVESTMENTS

Purchases of investments, including PIK interest, for the three months ended December 31, 2018 and 2017 totaled \$196.4 million and \$142.1 million, respectively. Sales and repayments of investments for the same periods totaled \$125.8 million and \$192.3 million, respectively.

Investments and cash and cash equivalents consisted of the following:

Investment Classification	December 31, 2018		September 30, 2018	
	Cost	Fair Value	Cost	Fair Value
First lien	\$580,205,266	\$577,393,518	\$536,875,632	\$531,422,088
Second lien	395,646,750	403,170,805	385,201,277	391,038,029
Subordinated debt / corporate notes	49,887,593	48,123,067	48,617,113	48,127,586
Equity	297,871,535	162,766,421	273,122,153	161,497,771
Total investments	1,323,611,144	1,191,453,811	1,243,816,175	1,132,085,474
Cash and cash equivalents	24,657,870	24,653,889	19,543,625	19,506,154
Total investments and cash and cash equivalents	\$1,348,269,014	\$1,216,107,700	\$1,263,359,800	\$1,151,591,628

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, 2018		September 30, 2018	
		%		%
Healthcare, Education and Childcare	13	%	15	%
Consumer Products	10		10	
Energy and Utilities	8		7	
Hotels, Motels, Inns and Gaming	8		7	
Building Materials	5		2	
Electronics	5		3	
Printing and Publishing	5		6	
Business Services	4		4	
Media	4		6	
Personal, Food and Miscellaneous Services	4		3	
Auto Sector	3		3	
Beverage, Food and Tobacco	3		2	
Environmental Services	3		3	
Financial Services	3		5	
Insurance	3		—	
Manufacturing / Basic Industries	3		3	
Oil and Gas	3		5	
Aerospace and Defense	2		2	
Buildings and Real Estate	2		2	
Chemicals, Plastics and Rubber	2		1	
Distribution	2		2	
Home and Office Furnishings	2		2	
Other Media	2		2	
Other	1		5	
Total	100	%	100	%

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value, as defined under ASC Topic 820, Fair Value Measurements and Disclosures, 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

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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. Our 2019 Notes are classified as Level 2. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information, 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 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, 2018 and 2017, 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, may not have 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 of 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. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy. 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 earnings before interest, taxes, depreciation and amortization, or 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:

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Asset Category	Fair Value at		Unobservable Input	Range of Input
	December 31, 2018	Valuation Technique		(Weighted Average)
First lien	\$7,120,000	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	180,966,837	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	570,273,518	Market Comparable	Market Yield	7.5% – 17.6% (10.0%)
Second lien	222,203,968	Market Comparable	Market Yield	11.0% – 14.1% (13.1%)
Subordinated debt / corporate notes	48,123,067	Market Comparable	Market Yield	12.0% – 17.0% (15.6%)
Equity	161,713,242	Enterprise Market Value	EBITDA multiple	6.0x – 13.0x (9.0x)
Total Level 3 investments	\$1,190,400,632			
Long-Term Credit Facility	\$167,088,178	Market Comparable	Market Yield	5.6%

Asset Category	Fair Value at		Unobservable Input	Range of Input
	September 30, 2018	Valuation Technique		(Weighted Average)
Second lien	\$164,734,450	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	531,422,088	Market Comparable	Market Yield	7.4% – 17.5% (10.1%)
Second lien	226,303,579	Market Comparable	Market Yield	10.7% – 14.1% (13.3%)
Subordinated debt / corporate notes	48,127,586	Market Comparable	Market Yield	12.5% – 15.3% (14.5%)
Equity	160,656,044	Enterprise Market Value	EBITDA multiple	3.9x – 13.8x (8.2x)
Total Level 3 investments	\$1,131,243,747			
Long-Term Credit Facility	\$77,645,830	Market Comparable	Market Yield	5.5%

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:

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Description	Fair Value at December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3
Debt investments	\$1,028,687,390	\$—	\$—	\$1,028,687,390
Equity investments	162,766,421	1,053,179	—	161,713,242
Total investments	1,191,453,811	1,053,179	—	1,190,400,632
Cash and cash equivalents	24,653,889	24,653,889	—	—
Total investments and cash and cash equivalents	\$1,216,107,700	\$25,707,068	\$—	\$1,190,400,632
Long-Term Credit Facility	\$167,088,178	\$—	\$—	\$167,088,178
2019 Notes	249,430,000	—	249,430,000	—
Total debt	\$416,518,178	\$—	\$249,430,000	\$167,088,178

Description	Fair Value at September 30, 2018			
	Fair Value	Level 1	Level 2	Level 3
Debt investments	\$970,587,703	\$—	\$—	\$970,587,703
Equity investments	161,497,771	841,727	—	160,656,044
Total investments	1,132,085,474	841,727	—	1,131,243,747
Cash and cash equivalents	19,506,154	19,506,154	—	—
Total investments and cash and cash equivalents	\$1,151,591,628	\$20,347,881	\$—	\$1,131,243,747
Long-Term Credit Facility	\$77,645,830	\$—	\$—	\$77,645,830
2019 Notes	251,322,500	—	251,322,500	—
Total debt	\$328,968,330	\$—	\$251,322,500	\$77,645,830

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, 2018		
	Debt investments	Equity investments	Totals
Beginning Balance	\$970,587,703	\$160,656,044	\$1,131,243,747
Net realized gains	805,044	7,672,845	8,477,889
Net unrealized appreciation (depreciation)	3,054,099	(22,878,354)	(19,824,255)
Purchases, PIK interest, net discount accretion and non-cash exchanges	175,080,250	21,214,018	196,294,268
Sales, repayments and non-cash exchanges	(120,839,706)	(4,951,311)	(125,791,017)
Transfers in/out of Level 3	—	—	—
Ending Balance	\$1,028,687,390	\$161,713,242	\$1,190,400,632
Net change in unrealized appreciation (depreciation) reported within the net change in unrealized depreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$3,476,349	\$(14,245,662)	\$(10,769,313)

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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, net discount accretion and non-cash exchanges	133,670,716	8,708,434	142,379,150
Sales, repayments and non-cash exchanges	(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)

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	
	2018	2017
Beginning Balance (cost – \$80,520,000 and \$79,392,900, respectively)	\$77,645,830	\$76,037,341
Net change in unrealized (depreciation) appreciation included in earnings	(4,173,652)	540,734
Borrowings ⁽¹⁾	217,000,000	35,000,000
Repayments ⁽¹⁾	(123,384,000)	(35,000,000)
Transfers in and/or out of Level 3	—	—
Ending Balance (cost – \$174,136,000 and \$79,392,900, respectively)	\$167,088,178	\$76,578,075
Temporary draws outstanding, at cost	—	—
Ending Balance (cost – \$174,136,000 and \$79,392,900, respectively)	\$167,088,178	\$76,578,075

⁽¹⁾Excludes temporary draws.

As of December 31, 2018, 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	£29,000,000	\$40,136,000	\$36,934,197	March 15, 2019	\$(3,201,803)

As of September 30, 2018, 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	£30,000,000	\$41,520,000	\$39,121,590	December 14, 2018	\$(2,398,410)

The carrying value of our consolidated financial liabilities approximates fair value. We have adopted the principles under ASC Subtopic ASC 825-10, Financial Instruments, or ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and the 2019 Notes. We elected to use the fair value option for the Credit Facility and the 2019 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, 2018 and 2017 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 and the 2019 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, 2018 and 2017, our Credit Facility and the 2019 Notes had a net change in unrealized depreciation of \$6.1 million and \$1.1 million, respectively. As of December 31, 2018 and September 30, 2018, the net unrealized depreciation on our Credit Facility and the 2019 Notes totaled \$7.6 million and \$1.6 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.

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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, 2018 were as follows:

Name of Investment	Fair Value at September 30, 2018 ⁽¹⁾	Purchases of / Advances to Affiliates ⁽¹⁾	Sale of / Distributions from Affiliates	Income Accrued	Net Change in Appreciation / (Depreciation)	Fair Value at December 31, 2018 ⁽¹⁾	Net Realized Gains (Losses)
Controlled Affiliates							
AKW Holdings Limited	\$40,501,278	\$—	\$—	\$580,572	\$2,466,795	\$42,968,073	\$—
MidOcean JF Holdings Corp.							
(JF Acquisition, LLC)	12,099,647	—	—	—	(3,017,406)	9,082,240	—
RAM Energy LLC	78,914,960	5,000,000	—	1,010,000	9,415,040	93,330,000	—
Superior Digital Displays Holdings, Inc.	17,220,000	16,707,877	(16,168,548)	203,031	(10,457,361)	7,500,000	—
Non-Controlled Affiliates							
Affinion Group Holdings, Inc.	18,166,922	—	—	—	(1,346,115)	16,820,807	—
Big Run, Inc.	397,025	—	(447,844)	—	277,918	—	(227,099)
ETX Energy, LLC	34,801,373	2,326,900	—	—	(4,891,461)	32,236,812	—

U.S. Well Services, LLC							
(3)	24,713,011	225,253	(11,252,488)	213,730	(5,910,108)	—	4,859,930
Total Controlled and							
Non-Controlled							
Affiliates	\$226,814,216	\$24,260,030	\$(27,868,880)	\$2,007,333	\$(13,462,698)	\$201,937,932	\$4,632,831

(1) Excluding delayed draw investments.

(2) Includes PIK.

(3) Ceased to be an affiliate during the three months ended December 31, 2018.

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,	
	2018	2017
Numerator for net increase in net assets resulting from operations	\$6,778,189	\$12,295,397
Denominator for basic and diluted weighted average shares	68,908,920	71,060,836
Basic and diluted net increase in net assets per share resulting from operations	\$0.10	\$0.18

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, 2018 and September 30, 2018, cash and cash equivalents consisted of money

market funds in the amounts of \$24.7 million and \$19.5 million at fair value, respectively.

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9. FINANCIAL HIGHLIGHTS

Below are the financial highlights:

	Three Months Ended December 31,	
	2018	2017
Per Share Data:		
Net asset value, beginning of period	\$9.11	\$9.10
Net investment income ⁽¹⁾	0.18	0.20
Net change in realized and unrealized loss ⁽¹⁾	(0.08)	(0.02)
Net increase in net assets resulting from operations ⁽¹⁾	0.10	0.18
Distributions to stockholders ^{(1), (2)}	(0.18)	(0.18)
Repurchase of common stock ⁽¹⁾	0.02	—
Net asset value, end of period	\$9.05	\$9.10
Per share market value, end of period	\$6.37	\$6.91
Total return* ⁽³⁾	(12.39)%	(5.62)%
Shares outstanding at end of period	68,027,537	71,060,836
Ratios**/ Supplemental Data:		
Ratio of operating expenses to average net assets ^{(4), (5), (6)}	5.43	% 5.32 %
Ratio of interest and expenses on debt to average net assets	4.00	% 3.61 %
Ratio of total expenses to average net assets ^{(5), (6)}	9.43	% 8.93 %
Ratio of net investment income to average net assets ⁽⁶⁾	8.01	% 8.73 %
Net assets at end of period	\$615,941,105	\$646,312,918
Weighted average debt outstanding ⁽⁷⁾	\$532,965,659	\$541,820,206
Weighted average debt per share ^{(1), (7)}	\$7.73	\$7.62
Asset coverage per unit ⁽⁸⁾	\$2,479	\$2,955
Portfolio turnover ratio	44.50	% 48.71 %

*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, the ratio of operating expenses to average net assets before the waiver of certain Management Fees to average net assets was 6.20% and the ratio of total expenses before the waiver of certain Management Fees to average net assets was 9.81%.
- (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

The annualized weighted average cost of debt for the three months ended December 31, 2018 and 2017, 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 4.71% and 4.32%, respectively. As of December 31, 2018, in accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with a 200% asset coverage ratio requirement after such borrowing, excluding SBA debentures, pursuant to exemptive relief from the SEC received in June 2011.

On February 5, 2019, our stockholders approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the Small Business Credit Availability Act, or SBCAA) as approved by our board of directors on November 13, 2018. As a result, the asset coverage requirements applicable to us for senior securities have been reduced from 200% to 150%, subject to compliance with certain disclosure requirements. As of December 31, 2018 and September 30, 2018, our asset coverage ratio, as computed in accordance with the 1940 Act, was 248% and 291%, respectively.

Credit Facility

As of December 31, 2018, 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, 2018 and September 30, 2018, we had \$174.1 million and \$80.5 million (including a \$2.0 million temporary draw), respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate of 4.39% and 3.79%, respectively, exclusive of the fee on undrawn commitments of 0.375%, as of December 31, 2018 and September 30, 2018. 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.

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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 zero SBA debentures outstanding as of December 31, 2018. We have funded SBIC II with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150 million as of December 31, 2018. 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 \$175.0 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, 2018 and September 30, 2018, our SBIC Funds had \$150.0 million and \$300.0 million in debt commitments, respectively, of which \$150.0 million and \$180.0 million was drawn, respectively. As of December 31, 2018 and September 30, 2018, the unamortized fees on the SBA debentures was \$4.2 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, 2018 Principal Balance
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
March 21, 2018	March 1, 2028	3.53	71,000,000
Weighted Average Rate / Total		3.11 %	\$ 150,000,000

Issuance Dates	Maturity	Fixed All-in Coupon Rate ⁽¹⁾	As of September 30, 2018 Principal Balance
September 21, 2011	September 1, 2021	3.35 %	\$ 30,000,000

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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
March 21, 2018	March 1, 2028	3.53	71,000,000
Weighted Average Rate / Total		3.15	% \$ 180,000,000

⁽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, 2018, our SBIC Funds were in compliance with their regulatory requirements.

2019 Notes

As of December 31, 2018 and September 30, 2018, 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.

On November 13, 2018, our board of directors authorized the Company to redeem \$250.0 million outstanding aggregate principal amount of its 2019 Notes. Upon the delivery of a notice of redemption, the 2019 Notes will be prepaid at 100% of the principal amount, plus accrued and unpaid interest through the prepayment date, as well as a make-whole premium.

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, 2018 and

September 30, 2018, we had \$41.0 million and \$60.6 million, respectively, in commitments to fund investments. For the same periods, there were no letters of credit issued.

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

DECEMBER 31, 2018

(Unaudited)

12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

We must determine which, if any, of our unconsolidated controlled portfolio companies is a "significant subsidiary" within the meaning of Regulation S-X. Superior Digital Displays, LLC became a controlled affiliated investment as of December 31, 2013. We have determined that, as of December 31, 2018, Superior Digital Displays, LLC triggered at least one of the significance tests by 20%. As a result and in accordance with Rule 4-08(g) of Regulation S-K, presented below is summarized unaudited financial information for Superior Digital Displays, LLC as of December 31, 2018 and September 30, 2018 as well as for the three months ended December 31, 2018 and 2017.

Balance Sheet ⁽¹⁾	December 31, 2018 ⁽²⁾	September 30, 2018
Current assets	\$ 739.5	\$ 1,033.7
Noncurrent assets	5,923.5	6,663.1
Current liabilities	1,599.0	1,206.7
Noncurrent liabilities	7,225.0	23,065.9

Income Statement ⁽¹⁾	Three Months Ended December 31,	
	2018 ⁽²⁾	2017
Total revenue	\$367.7	\$413.1
Total expenses	2,255.3	2,992.1
Net loss	(1,887.6)	(2,579.0)

⁽¹⁾All amounts are in thousands.

⁽²⁾Unaudited.

13. STOCK REPURCHASE PROGRAM

On May 9, 2018, we announced a share repurchase program which allows us to repurchase up to \$30 million of our outstanding common stock in the open market at prices below our net asset value as reported in our then most recently published consolidated financial statements. The shares may be purchased from time to time at prevailing market prices, through open market transactions, including block transactions. Unless extended by our board of directors, the program, which may be implemented at the discretion of management, will expire on the earlier of May 9, 2019 and the repurchase of \$30 million of common stock. For the three months ended December 31, 2018 and 2017 we repurchased 1.0 million and zero shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$7.5 million and zero, respectively.

14. SUBSEQUENT EVENTS

On February 5, 2019, our stockholders approved the adoption of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the SBCAA) as approved by our board of directors on November 13, 2018. As a result, the minimum asset coverage requirements applicable to us for senior securities has been reduced from 200% to 150%, subject to compliance with certain disclosure requirements. In connection with this reduction, our annual base management fee has also been reduced from 1.50% to 1.00% on gross assets that exceed 200% of the Company's total net assets as of the immediately preceding quarter-end.

On January 31, 2019, the Company announced the redemption of \$250.0 million outstanding aggregate principal amount of its 2019 Notes due October 1, 2019. The 2019 Notes will be prepaid at 100% of the principal amount, plus accrued and unpaid interest through the payment date of March 4, 2019, as well as a make-whole premium.

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 statement 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, 2018, and the related consolidated statements of operations, the related consolidated statements of changes in net assets, and cash flows for the three-month periods ended December 31, 2018 and 2017, and the related notes to the consolidated financial statements (collectively, the interim financial statements). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with 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, 2018, 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 15, 2018, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated statement of assets and liabilities as of September 30, 2018, is fairly stated, in all material respects, in relation to the balance sheet 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 reviews in accordance with the standards of the PCAOB. A review of interim financial information 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 financial statements taken as a whole. Accordingly, we do not express such an opinion. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

/s/ RSM US LLP

New York, New York

February 7, 2019

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiaries regarding future events or our future performance or 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 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 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 a limited amount of capital available for such companies and the potential for rising interest rates. 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 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, 2018, our portfolio totaled \$1,191.5 million and consisted of \$577.4 million of first lien secured debt, \$403.2 million of second lien secured debt, \$48.1 million of subordinated debt and \$162.8 million of preferred and common equity. Our debt portfolio consisted of 90% variable-rate investments and 10% fixed-rate investments. As of December 31, 2018, we had no companies on non-accrual. Overall, the portfolio had net unrealized depreciation of \$132.2 million as of December 31, 2018. Our overall portfolio consisted of 56 companies with an average investment size of \$21.3 million, had a weighted average yield on interest bearing debt investments of 10.9% and was invested 48% in first lien secured debt, 34% in second lien secured debt, 4% in subordinated debt and 14% in preferred and common equity.

As of September 30, 2018, our portfolio totaled \$1,132.1 million and consisted of \$531.4 million of first lien secured debt, \$391.1 million of second lien secured debt, \$48.1 million of subordinated debt and \$161.5 million of preferred and common equity. Our debt portfolio consisted of 90% variable-rate investments and 10% fixed-rate investments. As of September 30, 2018, we had no portfolio companies on non-accrual. Overall, the portfolio had net unrealized depreciation of \$111.8 million as of September 30, 2018. Our overall portfolio consisted of 53 companies with an average investment size of \$21.4 million, had a weighted average yield on interest bearing debt investments of 11.2% and was invested 47% in first lien secured debt, 35% in second lien secured debt, 4% in subordinated debt and 14% in preferred and common equity.

For the three months ended December 31, 2018, we invested \$194.5 million in six new and 13 existing portfolio companies with a weighted average yield on debt investments of 9.5%. Sales and repayments of investments for the three months ended December 31, 2018 totaled \$125.8 million.

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.

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 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 the 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 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. Our 2019 Notes are classified as Level 2. 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 have adopted the principles under ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and the 2019 Notes. We elected to use the fair value option for the Credit Facility and the 2019 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, 2018 and 2017 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 and the 2019 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, 2018 and 2017, our Credit Facility and the 2019 Notes had a net change in unrealized depreciation of \$6.1 million and \$1.1 million, respectively. As of December 31, 2018 and September 30, 2018, net unrealized depreciation on our Credit Facility and the 2019 Notes totaled \$7.6 million and \$1.6 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 fair values of our portfolio investments, our Credit Facility and the 2019 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 values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

Payment-in-Kind, or PIK, Interest

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. 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, or the Excise Tax Avoidance Requirement. 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, subject to maintaining our ability to be taxed 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, including the 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 facilitating 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, 2018 and 2017.

Investment Income

Investment income for the three months ended December 31, 2018 was \$27.4 million and was attributable to \$13.2 million from first lien secured debt, \$12.4 million from second lien secured debt and \$1.8 million from subordinated

debt, respectively. 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. The decrease in investment income compared to the same period in the prior year was primarily due to a decrease in other income.

Expenses

Expenses for the three months ended December 31, 2018 totaled \$14.8 million. Base management fee for the same period totaled \$4.4 million, incentive fee totaled \$2.7 million, debt related interest and expenses totaled \$6.3 million, general and administrative expenses totaled \$1.1 million and provision for taxes totaled \$0.3 million. 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. The increase in expenses compared to the same period in the prior year was primarily due to an increase in leverage, which resulted in an increased interest expense.

Net Investment Income

Net investment income totaled \$12.6 million, or \$0.18 per share, for the three months ended December 31, 2018, and \$14.2 million, or \$0.20 per share, for the three months ended December 31, 2017. The decrease in net investment income compared to the same period in the prior year was primarily due to a decrease in other income and an increase leverage, which resulted in an increased interest expense.

Net Realized Gains or Losses

Sales and repayments of investments for the three months ended December 31, 2018 totaled \$125.8 million and net realized gains totaled \$8.5 million. 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. 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, the Credit Facility and the 2019 Notes

For the three months ended December 31, 2018 and 2017, we reported net change in unrealized depreciation on investments of \$20.4 million and \$6.8 million, respectively. As of December 31, 2018 and September 30, 2018, our net unrealized depreciation on investments totaled \$132.2 million and \$111.8 million, respectively. The net change in

unrealized appreciation/depreciation on our investments compared to the same period in the prior year was primarily due to changes in the capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized appreciation/depreciation on investments that were realized.

For the three months ended December 31, 2018 and 2017, our Credit Facility and the 2019 Notes had a net change in unrealized depreciation of \$6.1 million and \$1.1 million, respectively. As of December 31, 2018 and September 30, 2018, the net unrealized depreciation on the Credit Facility and the 2019 Notes totaled \$7.6 million and \$1.6 million, respectively. The net 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 \$6.8 million, or \$0.10 per share, for the three months ended December 31, 2018. This compares to a net change in net assets resulting from operations of \$12.3 million, or \$0.18 per share, for the three months ended December 31, 2017. The decrease in the net change in net assets from operations compared to the same period in the prior year was primarily due to a lower yielding 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. As of December 31, 2018, in accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with a 200% asset coverage ratio requirement after such borrowing, excluding SBA debentures pursuant to exemptive relief from the SEC received in June 2011.

On February 5, 2019, our stockholders approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the SBCAA) as approved by our board of directors on November 13, 2018. As a result, the asset coverage requirements applicable to us for senior securities have been reduced from 200% to 150%, subject to compliance with certain disclosure requirements. As of December 31, 2018 and September 30, 2018, our asset coverage ratio, as computed in accordance with the 1940 Act, was 248% and 291%, respectively.

The annualized weighted average cost of debt for the three months ended December 31, 2018 and 2017, 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 4.71% and 4.32%, respectively.

As of December 31, 2018, 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, 2018 and September 30, 2018, we had \$174.1 million and \$80.5 million (including a \$2.0 million temporary draw), respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate of 4.39% and 3.79%, respectively, exclusive of the fee on undrawn commitments of 0.375%, as of December 31, 2018 and September 30, 2018. 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, 2018 and September 30, 2018, we had \$270.9 million and \$364.5 million of unused borrowing capacity under our Credit Facility, respectively, 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, please refer to 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, 2018, 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 refer to 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.

On May 9, 2018, we announced a share repurchase program which allows us to repurchase up to \$30 million of our outstanding common stock in the open market at prices below our net asset value as reported in our then most recently published consolidated financial statements. The shares may be purchased from time to time at prevailing market prices, through open market transactions, including block transactions. Unless extended by our board of directors, the program, which may be implemented at the discretion of management, will expire on the earlier of May 9, 2019 and the repurchase of \$30 million of common stock. For the three months ended December 31, 2018 and 2017, we repurchased 1.0 million and zero shares of common stock in open market transactions for an aggregate cost (including transaction costs) of \$7.5 million and zero, respectively.

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 zero SBA debentures outstanding as of December 31, 2018. We have funded SBIC II with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150.0 million as of December 31, 2018. 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 \$175.0 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, 2018 and September 30, 2018, our SBIC Funds had \$150.0 million and \$300.0 million in debt commitments, respectively, of which \$150.0 million and \$180.0 million was drawn, respectively. As of December 31, 2018 and September 30, 2018, the unamortized fees on the SBA debentures were \$4.2 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, 2018 and September 30, 2018 were as follows:

Issuance Dates	Maturity	Fixed All-in Coupon Rate ⁽¹⁾	As of December 31, 2018 Principal Balance
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
March 21, 2018	March 1, 2028	3.53	71,000,000
Weighted Average Rate / Total		3.11 %	\$ 150,000,000

Issuance Dates	Maturity	Fixed All-in Coupon Rate ⁽¹⁾	As of September 30, 2018 Principal Balance
September 21, 2011	September 1, 2021	3.35 %	\$ 30,000,000
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
March 21, 2018	March 1, 2028	3.53	71,000,000
Weighted Average Rate / Total		3.15 %	\$ 180,000,000

⁽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, 2018, 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 200% (up to November 13, 2019 and 150% thereafter (or earlier if our stockholders approve the proposal to accelerate the application of the reduced asset coverage requirements to us), subject to certain disclosure requirements) asset coverage ratio is met after such borrowing. As of December 31, 2018 and September 30, 2018, 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.

As of December 31, 2018 and September 30, 2018, we had cash and cash equivalents of \$24.7 million and \$19.5 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of \$38.6 million for the three months ended December 31, 2018, and our financing activities provided cash of \$43.7 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from net borrowings under the Credit Facility.

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.

Contractual Obligations

A summary of our significant contractual payment obligations at cost as of December 31, 2018, 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	\$174.1	\$ —	\$ —	\$174.1	\$ —
SBA debentures	150.0	—	—	—	150.0
2019 Notes	250.0	250.0	—	—	—
Total debt outstanding ⁽¹⁾	574.1	250.0	—	174.1	150.0
Unfunded investments ⁽²⁾	41.0	—	—	27.0	14.0
Total contractual obligations	\$615.1	\$ 250.0	\$ —	\$201.1	\$ 164.0

⁽¹⁾The annualized weighted average cost of debt as of December 31, 2018, excluding debt issuance costs, was 4.10% 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 2019, 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 2019, the Administrator 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.

Recent Developments

On February 5, 2019, our stockholders approved the adoption of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the SBCAA) as approved by our board of directors on November 13, 2018. As a result, the minimum asset coverage requirements applicable to us for senior securities has been reduced from 200% to 150%, subject to compliance with certain disclosure requirements. In connection with this reduction, our annual base management fee has also been reduced from 1.50% to 1.00% on gross assets that exceed 200% of the Company's total net assets as of the immediately preceding quarter-end.

On January 31, 2019, the Company announced the redemption of \$250.0 million outstanding aggregate principal amount of its 2019 Notes due October 1, 2019. The 2019 Notes will be prepaid at 100% of the principal amount, plus accrued and unpaid interest through the payment date of March 4, 2019, as well as a make-whole premium.

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 Excise Tax Avoidance Requirement. 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 both the three months ended December 31, 2018 and 2017, we declared distributions of \$0.18 per share, for total distributions of \$12.2 million and \$12.8 million, respectively. We monitor available net investment income to determine if a return of capital for tax 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, 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 each 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 at least a certain percentage of our income annually, we could 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 August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which changes the fair value measurement disclosure requirements of ASC 820. The key provisions include new, eliminated and modified disclosure requirements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early application is permitted. The Company is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

In August 2018, the SEC issued the Final Rule Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments are intended to facilitate the disclosure of information to investors and simplify compliance. The final rule was effective on November 5, 2018. We do not anticipate the impact of this final rule to have a material impact on our consolidated financial statements.

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, 2018, our debt portfolio consisted of 90% variable-rate investments and 10% 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 interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

	Change In Interest Income,	Change In Interest Income,
	Net Of Interest Expense	Net of Interest Expense
Change In Interest Rates	(in thousands)	Per Share
Down 1%	\$ (7,515)	\$ (0.11)
Up 1%	\$ 7,515	\$ 0.11
Up 2%	\$ 15,029	\$ 0.22
Up 3%	\$ 22,544	\$ 0.33
Up 4%	\$ 30,066	\$ 0.44

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) under 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, 2018 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 below, as well as in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018, which could materially affect our business, financial condition and/or operating results. The risks described below, as well as 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.

Recently passed legislation will allow us to incur additional leverage.

A BDC has historically been able to issue “senior securities,” including borrowing money from banks or other financial institutions, only in amounts such that its asset coverage, as defined in Section 61(a)(2) of the 1940 Act, equals at least 200% after such incurrence or issuance. In March 2018, the Consolidated Appropriations Act of 2018 (which includes the SBCAA) was signed into law and amended the 1940 Act to decrease this percentage from 200% to 150% for a BDC that has received either stockholder approval or approval of a “required majority” (as defined in Section 57(o) of the 1940 Act) of its board of directors of the application of such lower asset coverage ratio to the BDC. On February 5, 2019, our stockholders approved such reduction, as approved by our board of directors on November 13, 2018. If we comply with the applicable disclosure requirements, we will be able to incur additional indebtedness, which may increase the risk of investing in us. In addition, since our base management fee is determined and payable based upon our average adjusted gross assets, which includes any borrowings for investment purposes, our base management fee expense may increase if we incur additional leverage. Effective February 5, 2019, base management fees have been reduced from 1.50% to 1.00% on gross assets that exceed 200% of the Company’s total net assets as of the immediately preceding quarter-end.

Because we intend to distribute substantially all of our income to our stockholders to maintain our ability to be subject to tax as a RIC, we will need to raise additional capital to finance our growth. If funds are not available to us, we may need to curtail new investments, and our common stock value could decline.

In order to satisfy the requirements to be treated as a RIC for federal income tax purposes, we intend to distribute to our stockholders substantially all of our investment company taxable income and net capital gains each taxable year. However, we may retain all or a portion of our net capital gains and pay applicable income taxes with respect thereto and elect to treat such retained net capital gains as deemed dividend distributions to our stockholders.

As a BDC, we are required to meet a 200% asset coverage ratio up to February 5, 2019 and 150% thereafter, subject to certain disclosure requirements, of total assets to total senior securities, which includes all of our borrowings, exclusive of the SBA debentures pursuant to SEC exemptive relief, and any preferred stock we may issue in the future. This requirement limits the amount we may borrow. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments or sell additional common stock and, depending on the nature of our leverage, to repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous. In addition, the issuance of additional securities could dilute the percentage ownership of our current stockholders in us.

We are partially dependent on our SBIC Funds for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC Funds may be limited by the SBA regulations governing SBICs from making certain distributions to us that may be necessary to fulfill our requirements to be treated as a RIC for federal income tax purposes. We may have to request a waiver of the SBA's restrictions for our SBIC Funds to make certain distributions to enable us to be subject to tax as a RIC. We cannot assure you that the SBA will grant such waiver, and if our SBIC Funds are unable to obtain a waiver, compliance with the SBA regulations may cause us to incur a corporate-level income tax.

If we incur additional debt, it could increase the risk of investing in our shares.

We have indebtedness outstanding pursuant to our 2019 Notes, Credit Facility and SBA debentures and expect in the future to borrow additional amounts under our Credit Facility or other debt securities, subject to market availability, and, may increase the size of our Credit Facility. We cannot assure you that our leverage will remain at current levels. The amount of leverage that we employ will depend upon our assessment of the market and other factors at the time of any proposed borrowing. Lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or preferred stockholders, if any, and we have granted a security interest in our assets, excluding those of our SBIC Funds, in connection with our Credit Facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. Additionally, the SBA, as a lender and an administrative agent, has a superior claim over the assets of our SBIC Funds in relation to our other creditors. Any future debt issuance will increase our leverage and may be subordinate to our Credit Facility and SBA debentures. In addition, borrowings or debt issuances and SBA debentures, also known as leverage, magnify the potential for loss or gain on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets decreases, then leveraging would cause the NAV

attributable to our common stock to decline more than it otherwise would have had we not utilized leverage. Similarly, any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common or preferred stock. Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures.

Up to February 5, 2019, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, through such date we may not be permitted to declare any cash distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. If this ratio declines below 200% before February 5, 2019, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. The SBCAA, which was signed into law in March 2018, modifies this section of the 1940 Act and decreases this percentage from 200% to 150% (subject to either stockholder approval or approval of both a majority of the board of directors and a majority of directors who are not interested persons). On November 13, 2018 and February 5, 2019, our board of directors and our stockholders, respectively, approved such reduction. As a result, the asset coverage requirements applicable to us for senior securities will be reduced from 200% to 150%, subject to compliance with certain disclosure requirements. As of such date, we will be able to incur additional indebtedness as a result of this new law and therefore, your risk of an investment in us may increase.

As of December 31, 2018 and September 30, 2018, our asset coverage ratio, as computed in accordance with the 1940 Act, was 248% and 291%, respectively. Since our leverage, including SBA debentures outstanding, was 91% and 80% of our net assets as of December 31, 2018 and September 30, 2018, respectively, we would have to receive an annual return of at least 1.98% and 1.75%, respectively, to cover annual interest payments.

As of December 31, 2018, we had outstanding borrowings of \$174.1 million under our Credit Facility, \$250.0 million outstanding under our 2019 Notes and \$150.0 million outstanding under the SBA debentures. Our consolidated debt outstanding was \$574.1 million and had a weighted average annual interest rate at the time of 4.10%, exclusive of the fee on undrawn commitment on our Credit Facility and 3.43% of upfront fees on the SBA debentures. To cover the annual interest on our borrowings of \$574.1 million outstanding as of December 31, 2018, at the weighted average annual rate of 4.10%, we would have to receive an annual yield of at least 1.98%. This example is for illustrative purposes only, and actual interest rates on our Credit Facility or any future borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee or incentive fee payable to our Investment Adviser, are and will be borne by our common stockholders.

The following table is designed to illustrate the effect on the return to a holder of our common stock of the leverage created by our use of borrowing as of December 31, 2018 of 46% of total assets (including such borrowed funds), at the current interest rate at the time of 4.10%, and assumes hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level of leverage and weighted average interest rate. The amount of leverage and cost of borrowing that we use will vary from time to time. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses) (1)	(10.0)%	(5.0)%	— %	5.0%	10.0%
Corresponding return to common stockholders (2)	(23.7)%	(13.7)%	(3.8)%	6.1 %	16.0%

(1)The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.

(2)In order to compute the “corresponding return to common stockholders,” the “assumed return on portfolio” is multiplied by the total value of our assets at the beginning of the period to obtain an assumed return to us. From this amount, all interest expense expected to be accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of the beginning of the period to determine the “corresponding return to common stockholders.”

Item 2.Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly	Approximate Dollar Value of Shares that May Yet Be Purchased
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			Announced Plans or Programs ⁽¹⁾	Under the Plans or Programs (in millions)
October 1, 2018 through October 31, 2018	—	\$ N/A	—	\$ 15.0
November 1, 2018 through November 30, 2018	464,543	7.33	464,543	11.6
December 1, 2018 through December 31, 2018	561,878	7.28	561,878	7.5
Total	1,026,421		1,026,421	

⁽¹⁾On May 9, 2018, we announced a share repurchase program which allows us to repurchase up to \$30.0 million of our outstanding common stock. Unless extended by our board of directors, the program will expire on the earlier of May 9, 2019 and the repurchase of \$30.0 million of common stock.

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).
- 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, 2019 By: /s/ Arthur H. Penn
Arthur H. Penn
Chief Executive Officer and Chairman of the Board of Directors

(Principal Executive Officer)

Date: February 7, 2019 By: /s/ Aviv Efrat
Aviv Efrat
Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)