# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-K

**(Mark One)**
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**OR**

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

**FOR THE TRANSITION PERIOD FROM ______ TO ______**

**COMMISSION FILE NUMBER: 814-00736**

# PENNANTPARK INVESTMENT CORPORATION
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **MARYLAND** | **20-8250744** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **590 Madison Avenue,**<br>**15th Floor New York, N.Y.** | **10022** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant's telephone number, including area code (212)-905-1000**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.001 per share | The NASDAQ Stock Market LLC |
| 6.25% Senior Notes due 2025 | The New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of common stock held by non-affiliates of the Registrant on March 31, 2016 based on the closing price on that date of $6.06 on the NASDAQ Global Select Market was approximately $423 million. For the purposes of calculating the aggregate market value of common stock held by non-affiliates, all directors and executive officers of the Registrant have been treated as affiliates. There were 71,060,836 shares of the Registrant's common stock outstanding as of November 21, 2016.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement relating to the Registrant's 2017 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Report.

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# PART I

*In this annual report on Form 10-K, or the Report, except where the context suggests 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; "PennantPark Investment Advisers" or "Investment Adviser" refers to PennantPark Investment Advisers, LLC; and "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 licensed by the SBA; "Credit Facility" refers to our multi-currency, senior secured revolving credit facility; "2025 Notes" refers to our 6.25% senior notes due 2025; "2019 Notes" refers to our 4.50% notes due 2019; "our Notes" refers collectively to our 2025 Notes and 2019 Notes; "1940 Act" refers to the Investment Company Act of 1940, as amended; "Code" refers to the Internal Revenue Code of 1986, as amended; "RIC" refers to a regulated investment company under the Code; and "BDC" refers to a business development company under the 1940 Act. References to our portfolio, our investments and our business include investments we make through our SBIC Funds and other consolidated subsidiaries. Some of the statements in this annual report constitute forward-looking statements, which apply to us and relate to future events, future performance or future financial condition. The forward-looking statements involve risks and uncertainties for us and actual results could differ materially from those projected in the forward-looking statements for any reason, including those factors discussed in "Risk Factors" and elsewhere in this Report.*

## Item 1. Business

*General Business of PennantPark Investment Corporation*

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 senior secured debt, mezzanine debt and equity investments.

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured debt, mezzanine debt and equity investments by investing approximately $10 million to $50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term "middle-market" to refer to companies with annual revenues between $50 million and $1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies. Securities rated below investment grade are often referred to as "leveraged loans" or "high yield" securities or "junk bonds" and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. Our debt investments may generally range in maturity from three to ten years and, are made to U.S. and to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

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

*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 May 2010 and July 2012, respectively. SBIC I and SBIC II received licenses from the SBA to operate as SBICs, under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act, in 2010 and 2013, respectively. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA-eligible businesses that meet the investment selection criteria used by PennantPark Investment.

*Our Investment Adviser and Administrator*

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing what we believe is an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 25 years of experience in the senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across changing economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser's inception in 2007, it has raised about $3.0 billion in debt and equity capital and has invested $5.5 billion in more than 400 companies with over 160 different financial sponsors through its managed funds.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the Securities and Exchange Commission, or the SEC, and the SBA. The Administrator assists in the determination and publication of our net asset value, or NAV, oversees the preparation and filing of our tax returns, and monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator may provide, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See "Risk Factors—Risks Relating to our Business and Structure—There are significant potential conflicts of interest which could impact our investment returns" for more information.

*Market Opportunity*

We believe that the limited amount of capital available to middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us.

- **We believe middle-market companies have faced difficulty in raising debt through the capital markets.** Many middle-market companies look to raise funds by issuing high-yield bonds. We believe this approach to financing becomes difficult at times when institutional investors seek to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield securities from time to time.

- **We believe middle-market companies have faced difficulty raising debt in private markets.** From time to time, banks, finance companies, hedge funds and collateralized loan obligation, or CLO, funds have withdrawn, and may again withdraw, capital from the middle-market, resulting in opportunities for alternative funding sources.

- **We believe that credit market dislocation for middle-market companies improves the risk-reward on our investments.** From time to time, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, there is less competition in our market, more conservative capital structures, higher yields and stronger covenants.

- **We believe there is a large pool of uninvested private equity capital likely to seek to combine their capital with sources of debt capital to complete private investments.** We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with senior secured debt and/or mezzanine debt provided by other sources, and we believe that our capital is well-positioned to partner with such equity investors.

- **We believe there is a substantial supply of opportunities resulting from maturing loans that seek refinancing.** A high volume of financings will come due in the next few years. Additionally, we believe that demand for debt financing from middle-market companies will remain strong because these companies will continue to require credit to refinance existing debt, to support growth initiatives and to finance acquisitions. We believe the combination of strong demand by middle-market companies and from time to time the reduced supply of credit described above should increase lending opportunities for us. We believe this supply of opportunities coupled with lack of demand offers attractive risk-reward to investors.

*Competitive Advantages*

We believe that we have the following competitive advantages over other capital providers to middle-market companies:

***a) Experienced Management Team***

The senior investment professionals of our Investment Adviser have worked together for many years and average over 25 years of experience in senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses. These senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across changing economic and market cycles. We believe this extensive experience and history has resulted in a strong reputation across the capital markets.

Lending to middle-market companies requires in-depth diligence, credit expertise, restructuring experience and active portfolio management. For example, lending to middle-market companies in the United States is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of the information available with respect to such companies. We are able to provide value-added customized financial solutions to middle-market companies as a result of specialized due diligence, underwriting capabilities and more extensive ongoing monitoring required as lenders.

***b) Disciplined Investment Approach with Strong Value Orientation***

We employ a disciplined approach in selecting investments that meet the long-standing, consistent value-oriented investment selection criteria employed by our Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We believe this approach continues to enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through our Investment Adviser, conduct a rigorous due diligence process that draws from our Investment Adviser’s experience, industry expertise and network of contacts. Among other things, our due diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations. See “Investment Selection Criteria” for more information.

In addition to engaging in extensive due diligence, our Investment Adviser seeks to reduce risk by focusing on businesses with:

- strong competitive positions;
- positive cash flow that is steady and stable;
- experienced management teams with strong track records;
- potential for growth and viable exit strategies; and
- capital structures offering appropriate risk-adjusted terms and covenants.

***c) Ability to Source and Evaluate Transactions through our Investment Adviser’s Proactive, Research Capability and Established Network***

The management team of our Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that we believe enable us to evaluate investment opportunities effectively in numerous industries, as well as provide us access to substantial information concerning those industries. We identify potential investments both through active origination and through dialogue with numerous financial sponsors, management teams, members of the financial community and corporate partners with whom the professionals of our Investment Adviser have long-term relationships.

***d) Flexible Transaction Structuring***

We are flexible in structuring investments and tailor investments to meet the needs of a portfolio company while also generating attractive risk-adjusted returns. We can invest in all parts of a capital structure and our Investment Adviser has extensive experience in a wide variety of securities for leveraged companies throughout economic and market cycles.

Our Investment Adviser seeks to minimize the risk of capital loss without foregoing potential for capital appreciation. In making investment decisions, we seek to invest in companies that we believe can generate consistent positive risk-adjusted returns.

We believe that the in-depth experience of our Investment Adviser will enable us to invest throughout various stages of the economic and market cycles and to provide us with ongoing market insights in addition to a significant investment opportunity.

***Competition***

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities in middle-market companies can be intense. However, we believe that from time to time there has been a reduction in the amount of debt capital available to middle-market companies, which we believe has resulted in a less competitive environment for making new investments.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. See "Risk Factors—Risks Relating to our Business and Structure—We operate in a highly competitive market for investment opportunities" for more information.

***Leverage***

We maintain a multi-currency $545 million Credit Facility, which matures in June 2019, and is secured by substantially all of our investment portfolio assets (excluding the assets of our SBIC Funds), under which we had $50.3 million and $136.9 million (including a $30.0 million temporary draw) of debt outstanding with a weighted average interest rate of 2.76% and 3.07% as of September 30, 2016 and 2015, respectively, excluding undrawn commitment fees. Pricing of borrowings under our current Credit Facility is set at 225 basis points over the London Interbank Offered Rate, or LIBOR. As of September 30, 2016 and 2015, we had $494.7 million and $408.1 million, respectively, available to us under our Credit Facility subject to the regulatory restrictions.

As of September 30, 2016 and 2015, our SBIC Funds had $225.0 million in debt commitments, of which $197.5 million and $150.0 million was drawn, respectively, with a weighted average interest rate of 3.44% and 3.70%, exclusive of the 3.43% of upfront fees. The SBA debentures mature between September 2020 and September 2026. SBA debentures offer competitive terms such as being non-recourse to us, a 10-year maturity, semi-annual interest payments, no required principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of our SBIC Funds and have a priority claim over such assets relative to all other creditors. See "Regulation" for more information.

As of September 30, 2016 and 2015, we had $250.0 million in aggregate principal amount of 2019 Notes outstanding. Interest on the 2019 Notes accrues at a rate of 4.50% per year and is paid semi-annually. 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.

As of September 30, 2016 and 2015, we had $71.3 million in aggregate principal amount of 2025 Notes outstanding. Interest on the 2025 Notes accrues at a rate of 6.25% per year and is paid quarterly. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. Our use of regulatory leverage, as calculated under the asset coverage requirements of the 1940 Act, may generally range between 60% and 80% of our net assets.

***Investment Policy Overview***

We seek to create a diversified portfolio that includes senior secured debt, mezzanine debt and, to a lesser extent, equity by targeting an investment size of $10 million to $50 million in securities, on average, of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such unrated 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. In addition, we expect our debt investments to range in maturity from three to ten years.

Over time, we expect that our portfolio will continue to consist primarily of senior secured debt, mezzanine debt and, to a lesser extent, equity investments in qualifying assets such as private, or thinly traded or small market-capitalization, U.S. middle-market public companies. In addition, we may invest up to 30% of our portfolio in non-qualifying assets. These non-qualifying assets may include investments in public companies whose securities are not thinly traded or have a market capitalization of greater than $250 million, securities of middle-market companies located outside of the United States and investment companies as defined in the 1940 Act. We may acquire investments in the secondary market. See "Regulation—Qualifying Assets" and "Investment Selection Criteria" for more information.

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our securities. Nevertheless, the effects of changes to our operating policies and strategies may adversely affect our business, our ability to make distributions and the value of our securities.

***Senior Secured Debt***

Structurally, senior secured debt (which we define as first lien debt) ranks senior in priority of payment to mezzanine debt and equity, and benefits from a senior security interest in the assets of the borrower. As such, other creditors rank junior to our investments in these securities in the event of insolvency. Due to its lower risk profile and often more restrictive covenants as compared to mezzanine debt, senior secured debt generally earns a lower return than mezzanine debt. In some cases senior secured lenders receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

***Mezzanine Debt***

Structurally, mezzanine debt (which we define to include second lien secured debt and subordinated debt) usually ranks subordinate in priority of payment to senior secured debt. Our second lien secured debt is subordinated debt that benefits from a security interest in the borrower. As such, other creditors may rank senior to us in the event of insolvency. Mezzanine debt ranks senior to common and preferred equity in borrowers' capital structures. Due to its higher risk profile and often less restrictive covenants as compared to senior secured debt, mezzanine debt generally earns a higher return than senior secured debt. In many cases, mezzanine investors receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

***Investment Selection Criteria***

We are committed to a value-oriented philosophy used by the senior investment professionals who manage our portfolio and seek to minimize the risk of capital loss without foregoing potential for capital appreciation.

We have identified several criteria, discussed below, that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions. However, we caution that not all of these criteria will be met by each prospective portfolio company in which we choose to invest. Generally, we seek to use our experience and access to market information to identify investment opportunities and to structure investments efficiently and effectively.

***a) Leading and defensible competitive market positions***

The Investment Adviser invests in portfolio companies that it believes have developed strong positions within their markets and exhibit the potential to maintain sufficient cash flows and profit ability to service their obligations in a range of economic environments. The Investment Adviser also seeks to invest in portfolio companies that it believes possess competitive advantages, for example, in scale, scope, customer loyalty, product pricing or product quality as compared to their competitors to protect their market position.

***b) Investing in stable borrowers with positive cash flow***

Our investment philosophy places a premium on fundamental analysis and has a distinct value-orientation. The Investment Adviser invests in portfolio companies it believes to be stable and well-established, with strong cash flows and profitability. The Investment Adviser believes these attributes indicate portfolio companies that may be well-positioned to maintain consistent cash flow to service and repay their liabilities and maintain growth in their businesses or their relative market share. The Investment Adviser currently does not expect to invest significantly in start-up companies, companies in turnaround situations or companies with speculative business plans, although we are permitted to do so.

***c) Proven management teams***

The Investment Adviser focuses on investments in which the portfolio company has an experienced management team with an established track record of success. The Investment Adviser typically requires that portfolio companies have in place proper incentives to align management's goals with our goals, including having equity interests.

***d) Financial sponsorship***

The Investment Adviser may seek to cause us to participate in transactions sponsored by what it believes to be trusted financial sponsors. The Investment Adviser believes that a financial sponsor's willingness to invest significant equity capital in a portfolio company is an implicit endorsement of the quality of that portfolio company. Further, financial sponsors of portfolio companies with significant investments at risk may have the ability, and a strong incentive, to contribute additional capital in difficult economic times should financial or operational issues arise so as to maintain their ownership position.

***e) Investments in different borrowers, industries and geographies***

The Investment Adviser seeks to invest our assets broadly among portfolio companies, across industries and geographical regions. The Investment Adviser believes that this approach may reduce the risk that a downturn in any one portfolio company, industry or geographical region will have a disproportionate impact on the value of our portfolio, although we are permitted to be non-diversified under the 1940 Act.

***f) Viable exit strategy***

The Investment Adviser seeks to invest in portfolio companies that it believes will provide a steady stream of cash flow to repay our loans while also reinvesting in their respective businesses. The Investment Adviser expects that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments in portfolio companies to be a key means by which we will exit from our investments over time. In addition, the Investment Adviser also seeks to invest in portfolio companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock, refinancing or other capital markets transaction.

***Due Diligence***

We believe it is critical to conduct extensive due diligence in evaluating new investment targets. Our Investment Adviser conducts a rigorous due diligence process that is applied to prospective portfolio companies and draws from our Investment Adviser's experience, industry expertise and network of contacts. In conducting due diligence, our Investment Adviser uses information provided by companies, financial sponsors and publicly available information as well as information from relationships with former and current management teams, consultants, competitors and investment bankers.

Our due diligence may include:

- review of historical and prospective financial information;
- research relating to the portfolio company's management, industry, markets, products and services and competitors;
- interviews with management, employees, customers and vendors of the potential portfolio company;
- on-site visits;
- review of loan documents; and
- background checks.

Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent auditors prior to the closing of the investment, as well as other outside advisers, as appropriate.

Upon the completion of due diligence on a portfolio company, the team leading the investment presents the investment opportunity to our Investment Adviser's investment committee. This committee determines whether to pursue the potential investment. All new investments are required to be reviewed by the investment committee of our Investment Adviser. The members of the investment committee receive no compensation from us. Rather, they are employees of and receive compensation from our Investment Adviser.

***Investment Structure***

Once we determine that a prospective portfolio company is suitable for investment, we work with the management of that portfolio company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. We negotiate with these parties to agree on how our investment is structured relative to the other capital in the portfolio company's capital structure.

We expect our senior secured debt to have terms of three to ten years. We generally obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of these loans. This collateral may take the form of first priority liens on the assets of a portfolio company.

Typically, our mezzanine debt investments have maturities of three to ten years. Mezzanine debt may take the form of a second priority lien on the assets of a portfolio company and have interest-only payments in the early years with cash or payment-in-kind, or PIK, payments with amortization of principal deferred to the later years. In some cases, we may invest in debt securities that, by their terms, convert into equity or additional debt securities or defer payments of interest for the first few years after our investment. Also, in some cases, our mezzanine debt may be collateralized by a subordinated lien on some or all of the assets of the borrower.

We seek to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we seek to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest in the form of a floor and potential equity appreciation) that compensates us for credit risk;
- incorporating "put" rights and call protection into the investment structure; and
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with our focus of preserving capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Our investments may include equity features, such as direct investments in the equity securities of borrowers or warrants or options to buy a minority interest in a portfolio company. Any warrants we may receive with our debt securities generally require only a nominal cost to exercise, so as a portfolio company appreciates in value, we may achieve additional investment return from these equity investments. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In many cases, we may also obtain registration rights in connection with these equity investments, which may include demand and "piggyback" registration rights.

We expect to hold most of our investments to maturity or repayment, but we may exit certain investments earlier when a liquidity event, such as the sale or refinancing of a portfolio company, takes place. We also may turn over investments to better position the portfolio in light of market conditions.

***Ongoing Relationships with Portfolio Companies***

***Monitoring***

The Investment Adviser monitors our portfolio companies on an ongoing basis. The Investment Adviser also monitors the financial trends of each portfolio company to determine if it is meeting its respective business plan and to assess the appropriate course of action for each portfolio company.

The Investment Adviser has several methods of evaluating and monitoring the performance and fair value of our investments, which may include the following:

- assessment of success in adhering to a portfolio company's business plan and compliance with covenants;
- periodic or regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- comparisons to other portfolio companies in the industry, if any;
- attendance at and participation in board meetings or presentations by portfolio companies; and
- review of periodic financial statements and financial projections for portfolio companies.

The Investment Adviser monitors credit risk of each portfolio company regularly with a goal toward identifying early, and when able and appropriate, exiting investments with potential credit problems. This monitoring process may include reviewing: (1) a portfolio company's financial resources and operating history; (2) comparing a portfolio company's current operating results with the Investment Adviser's initial thesis for the investment and its expectations for the performance of the investment; (3) a portfolio company's sensitivity to economic conditions; (4) the performance of a portfolio company's management; (5) a portfolio company's debt maturities and capital requirements; (6) a portfolio company's interest and asset coverage; and (7) the relative value of an investment based on a portfolio company's anticipated cash flow.

***Managerial Assistance***

We offer managerial assistance to our portfolio companies. As a BDC, we are required to make available such managerial assistance within the meaning of Section 55 of the 1940 Act. See "Regulation" for more information.

***Staffing***

We do not currently have any employees. Our Investment Adviser and Administrator have hired and expect to continue to hire professionals with skills applicable to our business plan, including experience in middle-market investing, senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses.

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***Our Corporate Information***

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PNNT." Our 2025 Notes are quoted on the New York Stock Exchange, or the NYSE, under the symbol "PNTA." Our phone number is (212) 905-1000, and our Internet website address is *www.pennantpark.com*. Information contained on our website is not incorporated by reference into this Report and you should not consider information contained on our website to be part of this Report. We file periodic reports, proxy statements and other information with the SEC and make such reports available on our website free of charge as soon as reasonably practicable. You may read and copy the materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at *www.sec.gov* that contains material that we file with the SEC on the EDGAR Database.

***Our Portfolio***

Our principal investment focus is to provide senior secured debt and mezzanine debt to U.S. middle-market companies in a variety of industries. We generally seek to target companies that generate positive cash flows from the broad variety of industries in which our Investment Adviser has direct expertise. The following is an illustrative list of the industries in which the Investment Adviser has invested:

- Aerospace and Defense
- Auto Sector
- Beverage, Food and Tobacco
- Broadcasting and Entertainment
- Buildings and Real Estate
- Building Materials
- Business Services
- Cable Television
- Capital Equipment
- Cargo Transportation
- Chemicals, Plastics and Rubber
- Communications
- Consumer Products
- Consumer Services
- Containers Packaging & Glass
- Distribution
- Diversified/Conglomerate Manufacturing
- Diversified/Conglomerate Services
- Diversified Natural Resources, Precious Metals and Minerals
- Education
- Electronics
- Energy/Utilities
- Environmental Services
- Financial Services
- Grocery
- Healthcare, Education and Childcare
- High Tech Industries
- Home & Office Furnishings, Housewares & Durable Consumer Products
- Hotels, Motels, Inns and Gaming
- Insurance
- Leisure, Amusement, Motion Picture, Entertainment
- Logistics
- Manufacturing/Basic Industries
- Media
- Mining, Steel, Iron and Non-Precious Metals
- Oil and Gas
- Other Media
- Personal, Food and Miscellaneous Services
- Printing and Publishing
- Retail
- Wholesale

Listed below are our top ten portfolio companies and industries represented as a percentage of our consolidated portfolio assets (excluding cash equivalents) as of September 30:

| Portfolio Company | 2016 | Portfolio Company | 2015 |
|---|---|---|---|
| Parq Holdings Limited Partnership | 7% | Foundation Building Materials, LLC | 7% |
| RAM Energy LLC | 6 | Parq Holdings Limited Partnership | 6 |
| Affinion Group Holdings, Inc. | 5 | RAM Energy LLC | 6 |
| Pre-Paid Legal Services, Inc. | 5 | Pre-Paid Legal Services, Inc. | 5 |
| Jacobs Entertainment, Inc. | 4 | Affinion Group Holdings, Inc. | 4 |
| Novitex Acquisition, LLC | 4 | AKA Diversified Holdings, Inc. | 4 |
| Cascade Environmental LLC | 3 | Jacobs Entertainment, Inc. | 4 |
| ETX Energy, LLC (f/k/a New Gulf Resources, LLC) | 3 | Language Line, LLC | 3 |
| Howard Berger Co. LLC | 3 | Novitex Acquisition, LLC | 3 |
| LSF9 Atlantis Holdings, LLC | 3 | Randall-Reilly, LLC | 3 |

| Industry | 2016 | Industry | 2015 |
|---|---|---|---|
| Hotels, Motels, Inns and Gaming | 13 % | Hotels, Motels, Inns and Gaming | 14 % |
| Consumer Products | 9 | Personal, Food and Miscellaneous Services | 11 |
| Personal, Food and Miscellaneous Services | 8 | Building Materials | 9 |
| Business Services | 7 | Consumer Products | 8 |
| Distribution | 6 | Business Services | 6 |
| Energy/Utilities | 6 | Energy/Utilities | 6 |
| Aerospace and Defense | 5 | Oil and Gas | 6 |
| Environmental Services | 5 | Distribution | 4 |
| Media | 5 | Environmental Services | 4 |
| Oil and Gas | 5 | Retail | 4 |

Our executive officers and directors, as well as the senior investment professionals of the Investment Adviser and Administrator, may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Currently, the executive officers and directors, as well as certain of the current senior investment professionals of the Investment Adviser and Administrator, serve as officers and directors of PennantPark Floating Rate Capital Ltd., a publicly traded BDC, and other managed funds, as applicable. Accordingly, they may have obligations to investors in those entities, the fulfillment of which obligations might not be in the best interest of us or our stockholders. In addition, we note that any affiliated investment vehicle currently existing, or formed in the future, and managed by the Investment Adviser and or its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities among us and such other entities. The Investment Adviser will allocate investment opportunities in a fair and equitable manner consistent with our allocation policy, and we have received exemptive relief with respect to certain co-investment transactions. Where co-investment is unavailable or inappropriate, the Investment Adviser will choose which investment fund should receive the allocation. See "Risk Factors—Risks Relating to our Business and Structure—There are significant potential conflicts of interest which could impact our investment returns" for more information.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. We may also co-invest in the future on a concurrent basis with our affiliates, subject to compliance with applicable regulations, our trade allocation procedures and, if applicable, the terms of our exemptive relief.

***Investment Management Agreement***

We have entered into an agreement with the Investment Adviser, or the Investment Management Agreement, under which 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. Mr. Penn, our Chairman and Chief Executive Officer, is the managing member and a senior investment professional of, and has a financial and controlling interest in, PennantPark Investment Advisers. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their respective investment management agreements. Such investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Under the terms of our Investment Management Agreement, the Investment Adviser:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make; and
- provides us with such other investment advisory, research and related services as we may need from time to time.

PennantPark Investment Advisers' services under our Investment Management Agreement are not exclusive, and it is free to furnish similar services, without the prior approval of our stockholders or our board of directors, to other entities so long as its services to us are not impaired. Our board of directors monitors for any potential conflicts that may arise upon such a development. For providing these services, the Investment Adviser receives a fee from PennantPark Investment, consisting of two components—a base management fee and an incentive fee or, collectively, Management Fees.

***Investment Advisory Fees***

The base management fee is calculated at an annual rate of 2.00% of our "average adjusted gross assets," which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to 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 years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned base management fees of $20.9 million (after a waiver of $4.0 million), $26.7 million and $24.3 million, respectively, from us.

The following is a hypothetical example of the calculation of average adjusted gross assets:

Gross assets as of December 31, 20XX = $160 million

U.S. Treasury bills and temporary draws on credit facilities as of December 31, 20XX = $10 million

Adjusted gross assets as of December 31, 20XX = $150 million

Gross assets as of March 31, 20XX = $200 million

U.S. Treasury bills and temporary draws on credit facilities as of March 31, 20XX = $20 million

Adjusted gross assets as of March 31, 20XX = $180 million

Average value of adjusted gross assets as of March 31, 20XX and December 31, 20XX, which are the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter equals ($150 million + $180 million) / 2 = $165 million.

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 (as defined below), and any interest expense and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, or OID, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle but is less than 2.1875% in any calendar quarter (8.75% annualized) (we refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.1875%) as the "catch-up," which is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.1875% in any calendar quarter), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter, once the hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Net Fee Investment Income thereafter is allocated to our Investment Adviser. These calculations are prorated for any share issuances or repurchases during the relevant quarter, if applicable. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to waive 16% of incentive fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned $13.5 million (after a waiver of $2.5 million), $20.6 million and $17.8 million, respectively, in incentive fees on net investment income from us.

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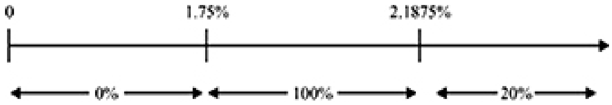
The following is a graphical representation of the calculation of quarterly incentive fee based on Pre-Incentive Fee Net Investment Income:

***Pre-Incentive Fee Net Investment Income***
***(expressed as a percentage of the value of net assets)***




***Percentage of Pre-Incentive Fee Net Investment Income***
***allocated to income-related portion of incentive fee***

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the years ended September 30, 2016, 2015 and 2014, the Investment Adviser did not earn an incentive fee on capital gains, as calculated under the Investment Management Agreement (as described above).

Under U.S. generally accepted accounting principles, or GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid or accrued in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For the years ended September 30, 2016, 2015 and 2014, our unrealized and realized capital gains did not exceed our cumulative realized and unrealized losses and therefore resulted in no accrual for capital gains incentive fees under GAAP.

**Examples of Quarterly Incentive Fee Calculation**

**Example 1: Income Related Portion of Incentive Fee (*):**

**Alternative 1:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income—(base management fee + other expenses)) = 0.55%

Pre-Incentive Fee Net Investment Income does not exceed the hurdle; therefore, there is no incentive fee.

**Alternative 2:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income—(base management fee + other expenses)) = 2.00%

| | |
|---|---|
| Incentive fee | = 20% × Pre-Incentive Fee Net Investment Income, subject to “catch-up”<br>= 2.00% - 1.75%<br>= 0.25%<br>= 100% × 0.25%<br>= 0.25% |

**Alternative 3:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income—(base management fee + other expenses)) = 2.30%

| | |
|---|---|
| Incentive fee | = 20% × Pre-Incentive Fee Net Investment Income, subject to “catch-up”(3) |
| Incentive fee | = 100% × “catch-up” + (20% × (Pre-Incentive Fee Net Investment Income - 2.1875%)) |
| Catch-up | = 2.1875% - 1.75% |
| | = 0.4375% |
| | = (100% × 0.4375%) + (20% × (2.30% - 2.1875%)) |
| | = 0.4375% + (20% × 0.1125%) |
| | = 0.4375% + 0.0225% |
| | = 0.46% |

**Example 2: Capital Gains Portion of Incentive Fee:**

*Assumptions*

Year 1 = no net realized capital gains or losses

Year 2 = 6% realized capital gains and 1% realized capital losses and unrealized capital depreciation, capital gain incentive fee = 20% × (realized capital gains for year computed net of all realized capital losses and unrealized capital depreciation at year end)

| | |
|---|---|
| Year 1 incentive fee | = 20% × (0) |
| | = 0 |
| | = no incentive fee |
| Year 2 incentive fee | = 20% × (6% - 1%) |
| | = 20% × 5% |
| | = 1% |

* The hypothetical amount of Pre-Incentive Fee Net Investment Income shown is based on a percentage of net assets.

(1) Represents 7.0% annualized hurdle.

(2) Represents 2.0% annualized base management fee.

(3) The “catch-up” provision is intended to provide the Investment Adviser with an incentive fee of approximately 20% on all of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our net investment income exceeds 2.1875% in any calendar quarter.

***Organization of the Investment Adviser***

PennantPark Investment Advisers is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. The principal executive office of PennantPark Investment Advisers is located at 590 Madison Avenue, 15th Floor, New York, NY 10022.

***Duration and Termination of Investment Management Agreement***

The Investment Management Agreement 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 2016. Unless terminated earlier as described below, the Investment Management Agreement will continue in effect for a period of one year through February 2017. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us or the Investment Adviser. In determining to reapprove the Investment Management Agreement, our board of directors requested information from the Investment Adviser that enabled it to evaluate a number of factors relevant to its determination. These factors included the nature, quality and extent of services performed by the Investment Adviser, our ability to manage conflicts of interest effectively, our short and long-term performance, our costs, including as compared to comparable externally and internally managed publicly traded BDCs that engage in similar investing activities, our profitability and any economies of scale. Based on the information reviewed and the considerations detailed above, our board of directors, including all of our directors who are not interested persons of us or the Investment Adviser, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and reapproved the Investment Management Agreement as being in the best interests of our stockholders.

The Investment Management Agreement will automatically terminate in the event of its assignment. The Investment Management Agreement may be terminated by either party without penalty upon 60 days’ written notice to the other. See “Risk Factors—Risks Relating to our Business and Structure—We are dependent upon our Investment Adviser’s key personnel for our future success, and if our Investment Adviser is unable to hire and retain qualified personnel or if our Investment Adviser loses any member of its management team, our ability to achieve our investment objectives could be significantly harmed” for more information.

***Administration Agreement***

We have entered into an agreement, or the Administration Agreement, with the Administrator, under which the Administrator furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services. Under our Administration Agreement, the Administrator performs, or oversees the performance of, our required administrative services, which include, amongst other activities, being responsible for the financial records we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Administrator assists us in determining and publishing our NAV, oversees the preparation and filing of our tax returns and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements with us. For providing these services, facilities and personnel, we 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 cost of the compensation and related expenses for our Chief Compliance Officer and Chief Financial Officer and their respective staffs. The Administrator also offers on our behalf managerial assistance to portfolio companies to which we are required to offer such assistance. To the extent that our Administrator outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to the

Administrator. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the fiscal years ended September 30, 2016, 2015 and 2014, the Investment Adviser was reimbursed $3.7 million, $3.3 million and $3.0 million, respectively, from us, including expenses it incurred on behalf of the Administrator for the services described above.

***Duration and Termination of Administration Agreement***

The Administration Agreement was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2016. Unless terminated earlier as described below, our Administration Agreement will continue in effect for a period of one year through February 2017. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us. The Administration Agreement may not be assigned by either party without the consent of the other party. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other.

***Indemnification***

Our Investment Management Agreement and Administration Agreement provide that, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations, PennantPark Investment Advisers and PennantPark Investment Administration and their officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with them are entitled to indemnification from PennantPark Investment for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of PennantPark Investment Advisers' and PennantPark Investment Administration's services under our Investment Management Agreement or Administration Agreement or otherwise as Investment Adviser or Administrator for us.

***License Agreement***

We have entered into a license agreement, or the License Agreement, with PennantPark Investment Advisers pursuant to which PennantPark Investment Advisers has granted us a royalty-free, non-exclusive license to use the name "PennantPark." Under this agreement, we have a right to use the PennantPark name, for so long as PennantPark Investment Advisers or one of its affiliates remains our Investment Adviser. Other than with respect to this limited license, we have no legal right to the "PennantPark" name.

**REGULATION**

***Business Development Company, Regulated Investment Company Regulations and Small Business Investment Company Regulations***

We are a BDC under the 1940 Act, which has qualified and intends to continue to qualify to maintain an election to be treated as a RIC under Subchapter M of the Code. The 1940 Act contains prohibitions and restrictions relating to transactions between a BDC and its affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by holders of a majority of our outstanding voting securities.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act of 1933, as amended, or the Securities Act. We may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of securities we own or their affiliates to repurchase them under certain circumstances. We do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. We may enter into hedging transactions to manage the risks associated with interest rate and currency fluctuations. None of these policies are fundamental and they may be changed without stockholder approval.

***Qualifying Assets***

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC's total assets. The principal categories of qualifying assets relevant to our business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined under the 1940 Act to include any issuer which:

  (a) is organized under the laws of, and has its principal place of business in, the United States;

  (b) is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but is excluded from the definition of an investment company by Section 3(c) of the 1940 Act; and

  (c) satisfies any of the following:

    (i) does not have any class of securities listed on a national securities exchange;

    (ii) has any class of securities listed on a national securities exchange subject to a maximum market capitalization of $250.0 million; or

    (iii) is controlled by a BDC, either alone or as part of a group acting together, and such BDC in fact exercises a controlling influence over the management or policies of such eligible portfolio company and, as a result of such control, has an affiliated person who is a director of such eligible portfolio company.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. operating company or from an affiliated person of the issuer, or in transactions incidental thereto, if such issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

***Managerial Assistance to Portfolio Companies***

As a BDC, we are required to make available managerial assistance to our portfolio companies that constitute a qualifying asset within the meaning of Section 55 of the 1940 Act. However, if a BDC purchases securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. Our Administrator may provide such assistance on our behalf to portfolio companies that request such assistance. Officers of our Investment Adviser and Administrator may provide assistance to controlled affiliates.

***Temporary Investments***

Pending investments in other types of qualifying assets, as described above, may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. We may invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests, as defined below under "Regulation—Election to be Treated as a RIC," in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our Investment Adviser will monitor the creditworthiness of the counterparties with which we may enter into repurchase agreement transactions.

***Senior Securities***

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act and referred to as the asset coverage ratio, is compliant with the 1940 Act, immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage requirement at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to our asset coverage ratio. We received exemptive relief from the SEC allowing us to modify the asset coverage requirement to exclude the SBA debentures from the calculation. For a discussion of the risks associated with leverage, see "Risk Factors—Risks Relating to our Business and Structure—Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital" for more information.

***Joint Code of Ethics and Code of Conduct***

We and PennantPark Investment Advisers have adopted a joint code of ethics pursuant to Rule 17j-1 under the 1940 Act and a code of conduct that establish procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the codes' requirements. Our joint code of ethics and code of conduct are available, free of charge, on our website at *www.pennantpark.com*. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, the joint code of ethics is attached as an exhibit to this Report and is available on the EDGAR Database on the SEC's Internet site at *www.sec.gov*. You may also obtain a copy of our joint code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

***Proxy Voting Policies and Procedures***

We have delegated our proxy voting responsibility to our Investment Adviser. The Proxy Voting Policies and Procedures of our Investment Adviser are set forth below. The guidelines are reviewed periodically by our Investment Adviser and our non-interested directors, and, accordingly, are subject to change. For purposes of these Proxy Voting Policies and Procedures described below, "we," "our" and "us" refer to our Investment Adviser.

*Introduction*

As an investment adviser registered under the Advisers Act, we have a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

*Proxy Policies*

We vote proxies relating to our portfolio securities in what we perceive to be the best interests of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by our clients. Although we will generally vote against proposals that may have a negative impact on our clients' portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by the senior investment professionals who are responsible for monitoring each of our clients' investments. To ensure that our vote is not the product of a conflict of interest, we require that: (1) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

*Proxy Voting Records*

You may obtain information about how we voted proxies, free of charge, by calling us collect at (212) 905-1000 or by making a written request for proxy voting information to: Aviv Efrat, Chief Financial Officer and Treasurer, 590 Madison Avenue, 15th Floor, New York, New York 10022.

***Privacy Protection Principles***

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our stockholders to employees of our Investment Adviser and its affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Our privacy protection policies are available, free of charge, on our website at *www.pennantpark.com*. In addition, the privacy policy is available on the EDGAR Database on the SEC's Internet site at *www.sec.gov*, filed as an exhibit to our annual report on Form 10-K (File No. 814-00736, filed on November 16, 2011). You may also obtain copies of our privacy policy, after paying a duplicating fee, by electronic request at the following email address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

***Other***

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors, including a majority of our directors who are not interested persons of us, and, in some cases, prior approval by the SEC.

We will be periodically examined by the SEC and SBA for compliance with the 1940 Act and 1958 Act, respectively.

We are required by law to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and PennantPark Investment Advisers have each adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws. We review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and we designate a Chief Compliance Officer to be responsible for administering the policies and procedures.

***Sarbanes-Oxley Act of 2002***

The Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, imposes several regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us.

For example:

- pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 of Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 of the Exchange Act, our management must prepare an annual report regarding its assessment of our internal controls over financial reporting; and
- pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and continue to take actions necessary to ensure that we are in compliance with that act.

***Election to be Treated as a RIC***

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 (as described below). We also must annually distribute investment company taxable income to our stockholders of an amount generally at least equal to 90% of the sum of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income and determined without regard to any deduction for dividends paid, out of the assets legally available for distribution, or the Annual Distribution Requirement.

In order to qualify as a RIC for federal income tax purposes, we must:

- maintain an election to be treated as a BDC under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships or other income derived with respect to our business of investing in such stock or securities, or the 90% Income Test; and
- diversify our holdings, or the Diversification Tests, so that at the end of each quarter of the taxable year:
  1) at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer neither represents more than 5% of the value of our assets nor more than 10% of the outstanding voting securities of the issuer; and
  2) no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in certain qualified publicly traded partnerships.

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 in respect of each calendar year dividends to our stockholders of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income (i.e., the excess, if any, of our capital gains over capital losses), adjusted for certain ordinary losses, generally for the one-year period ending on October 31 of the calendar year plus (3) any net ordinary income or capital gain net income for the preceding years that was not distributed during such years, 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 may retain and be subject to excise tax on such net capital gains or investment company taxable income, subject to maintaining our ability to be treated as a RIC for federal income tax purposes, in order to provide us with additional liquidity.

***Taxation as a RIC***

If we qualify as a RIC, and satisfy the Annual Distribution Requirement, then we will not be subject to federal income tax on the portion of our investment company taxable income and net capital gains, we distribute (or are deemed to distribute) as dividends for U.S. federal income tax purposes to stockholders. Additionally, upon satisfying these requirements, we will be subject to U.S. federal income tax at the regular corporate rates on any investment company taxable income or net capital gains, determined without regard to any deduction for dividends paid, that is not distributed (or not deemed to have been distributed) as dividends for U.S. federal income tax purposes to our stockholders.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold a debt instrument that is treated under applicable tax rules as having OID (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each taxable year a portion of the OID that accrues over the life of the debt instrument, regardless of whether cash representing such income is received by us in the same taxable year. Because any OID accrued will be included in our investment company taxable income in the taxable year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

We invest in below investment grade instruments. Investments in these types of instruments may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, OID or market discount, when and to what extent deductions may be taken for bad debts or worthless debt instruments, how payments received on obligations in default should be allocated between principal and income and whether exchanges of debt instruments in a bankruptcy or workout context are taxable. We will address these and other issues to the extent necessary in order to continue to maintain our qualification to be treated as a RIC for federal income tax purposes.

Gain or loss realized by us from equity securities and warrants acquired by us, as well as any loss attributable to the lapse of such warrants, generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

We are authorized to borrow funds and to sell assets in order to satisfy our Annual Distribution Requirement or the Excise Tax Avoidance Requirement. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt instruments and other senior securities are outstanding unless certain asset coverage requirements are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

We may distribute our common stock as a dividend from our taxable income and a stockholder could receive a portion of such distributions declared and distributed by us in shares of our common stock with the remaining amount in cash. A stockholder will be considered to have recognized dividend income generally equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. The total dividend declared and distributed by us would be taxable income to a stockholder even though only a small portion of the dividend was paid in cash to pay any taxes due on the total dividend. We have not yet elected to distribute stock as a dividend but reserve the right to do so.

***Failure to Qualify as a RIC***

If we fail to satisfy the Annual Distribution Requirement or fail to qualify as a RIC in any taxable year, unless certain cure provisions of the Code apply, we will be subject to tax in that taxable year on all of our taxable income at regular corporate rates, regardless of whether we make any dividend distributions to our stockholders. In that case, all of our income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated. See "Election to be Treated as a RIC" above for more information.

If we are unable to maintain our status as a RIC, we also would not be able to deduct distributions to stockholders, nor would distributions be required to be made. Distributions would generally be taxable as dividends to our stockholders as ordinary dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, dividends paid by us to certain U.S. corporate stockholders would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis in our common stock, and any remaining distributions would be treated as a capital gain. Moreover, if we fail to qualify as a RIC in any taxable year, to qualify again to be treated as a RIC for federal income tax purposes in a subsequent taxable year, we would be required to distribute our earnings and profits attributable to any of our non-RIC taxable years as dividends to our stockholders. In addition, if we fail to qualify as a RIC for a period greater than two consecutive taxable years, to qualify as a RIC in a subsequent taxable year we may be subject to regular corporate tax on any net built-in gains with respect to certain of our assets (that is, the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if we had sold the property at fair market value at the end of the taxable year) that we elect to recognize on requalification or when recognized over the next five taxable years.

***SBA Regulations***

Our SBIC Funds are licensed under the SBA as SBICs under Section 301(c) of the 1958 Act. SBIC I and SBIC II received their licenses in 2010 and 2013, respectively.

SBICs are designed to stimulate the flow of capital to businesses that meet specified eligibility requirements discussed below. 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, placing certain limitations on the financing terms of investments, prohibiting investing in certain industries, and required capitalization thresholds among other regulations. Furthermore, our SBIC Funds are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP pursuant to SBA accounting standards and financial reporting requirements for SBICs. For example, our SBIC Funds do not use fair value accounting on its assets or liabilities under SBA valuation guidelines. If either of our SBIC Funds fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit use of debentures, declare outstanding debentures immediately due and payable, and/or limit our SBIC Funds from making new investments. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the 1958 Act or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us.

*Eligible Small and Smaller Businesses*

Under present SBA regulations, eligible small business include businesses that (together with their affiliates) have tangible net worth not exceeding $19.5 million and have average annual net income of $6.5 million for the two most recent fiscal years. In addition, each of our SBIC Funds must invest at least 25% of investments in “smaller” concerns. A smaller concern is a business that has tangible net worth not exceeding $6.0 million and has average annual net income not exceeding $2.0 million for the two most recent fiscal years or, as an alternative to the aforementioned requirement, meet the size requirements based on either the number of employees or gross revenue, which is based on the industry in which the smaller concern operates. Once an SBIC has invested in a company, it may continue to make follow-on investments in the company, regardless of the size of the business, up and until the time a business offers its securities in a public market.

*Financing Limitations, Terms and Changes in Control*

The SBA prohibits an SBIC from financing small businesses in certain industries such as relending, gambling, oil and gas exploration and other passive businesses. Additional SBA prohibitions include investing outside the United States, investing more than 30% of regulatory capital in one company and lending money to any officer, director or employee or to invest in any affiliate thereof. The SBA places certain limits on the financing terms of investments by our SBIC Funds in portfolio companies such as limiting the interest rate on debt securities and loans provided to portfolio companies. The SBA also limits fees, prepayment terms and other economic arrangements that are typically charged in lending arrangements.

The SBA also prohibits, without prior written approval, a “change in control” of our SBIC Funds or transfers that would result in any person or group owning 10% or more of a class of capital stock (or its equivalent in the case of a partnership) of a licensed SBIC. A “change of control” is any event which would result in the transfer of power, direct or indirect, to direct management and policies of an SBIC, whether through ownership, contractual arrangements or otherwise.

*Idle Funds Limitation*

The SBA limits an SBIC to investing idle funds in the following types of securities:

- direct obligations of, or obligations guaranteed as to principal and interest by, the United States Government, which mature within 15 months from the date of the investment;
- repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government);
- certificates of deposit with a maturity of one year or less, issued by a federally insured institution; or
- a deposit account in a federally insured institution that is subject to withdrawal restriction of one year or less.

*SBA Leverage or Debentures*

SBA-guaranteed debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. SBA current regulations limit the amount that an SBIC may borrow to a maximum of $150.0 million, which is up to twice its regulatory capital, and a maximum of $350.0 million as part of a group of SBICs under common control.

## Item 1A. Risk Factors

*Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this Report, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV, the trading price of our common stock, our Notes, or any securities we may issue, may decline, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS AND STRUCTURE

***Global capital markets could enter a period of severe disruption and instability. These market conditions have historically and could again have a materially adverse effect on debt and equity capital markets in the United States, which could have a materially negative impact on our business, financial condition and results of operations.***

The U.S. and global capital markets have experienced periods of disruption characterized by the freezing of available credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market, the failure of major financial institutions and general volatility in the financial markets. During these periods of disruption, general economic conditions deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole, and financial services firms in particular, was reduced significantly. These conditions may reoccur for a prolonged period of time or materially worsen in the future. In addition, uncertainty regarding the United Kingdom referendum decision to leave the European Union (the so called “Brexit”), continuing signs of deteriorating sovereign debt conditions in Europe and an economic slowdown in China create uncertainty that could lead to further disruptions, instability and weakening consumer, corporate and financial confidence. We may in the future have difficulty accessing debt and equity capital markets, and a severe disruption in the global financial markets, deterioration in credit and financing conditions or uncertainty regarding U.S. government spending and deficit levels, Brexit, European sovereign debt, Chinese economic slowdown or other global economic conditions could have a material adverse effect on our business, financial condition and results of operations.

***Volatility or a prolonged disruption in the credit markets could materially damage our business.***

We are required to record our assets at fair value, as determined in good faith by our board of directors, in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our valuations and our NAV, even if we hold investments to maturity. Volatility or dislocation in the capital markets may depress our stock price below our NAV per share and create a challenging environment in which to raise equity and debt capital. As a BDC, we are generally not able to issue additional shares of our common stock at a price less than our NAV without first obtaining approval for such issuance from our stockholders and our independent directors. Additionally, our ability to incur indebtedness is limited by the asset coverage ratio requirements for a BDC, as defined under the 1940 Act, exclusive of the SBA debentures pursuant to our SEC exemptive relief. Declining portfolio values negatively impact our ability to borrow additional funds under our Credit Facility because our NAV is reduced for purposes of the asset coverage ratio. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. A lengthy disruption in the credit markets could also materially decrease demand for our investments and could materially damage our business, financial condition and results of operations.

The significant disruption in the capital markets experienced in the past has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. The debt capital that may be available to us in the future may be at a higher cost and have less favorable terms and conditions than those currently in effect. If our financing costs increase and we have no increase in interest income, then our net investment income will decrease. A prolonged inability to raise capital may require us to reduce the volume of investments we originate and could have a material adverse impact on our business, financial condition and results of operations. This may also increase the probability that other structural risks negatively impact us. These situations may arise due to circumstances that we may be unable to control, such as a lengthy disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or recession or an operational problem that affects third parties or us, and could materially damage our business, financial condition and results of operations.

***We could be subject to reduced availability and/or mandatory prepayments under our Credit Facility, our Notes and SBA debentures.***

In addition to the asset coverage ratio requirements, our Credit Facility and the indenture governing our Notes contain various covenants which, if not complied with, could accelerate repayment under the Credit Facility and our Notes. This could have a material adverse effect on our business, financial condition and results of operations. Our borrowings under our Credit Facility are collateralized by the assets in our investment portfolio, excluding those portfolio investments held by our SBIC Funds. The agreements governing the Credit Facility require us to comply with certain financial and operational covenants. These covenants include:

- A requirement to retain our status as a RIC;
- A requirement to maintain a minimum amount of stockholder’s equity; and
- A requirement that our outstanding borrowings under the Credit Facility not exceed a certain percentage of the value of our portfolio.

In addition to the Credit Facility, we have issued our Notes and our SBIC Funds have issued SBA debentures that require us and our SBIC Funds to generate sufficient cash flow to make required interest payments. Further, our SBIC Funds must maintain a minimum capitalization that, if impaired, could materially and adversely affect our liquidity, financial condition and results of operations by accelerating repayment under the SBA debentures. Our borrowings under the SBA debentures are secured by the assets of our SBIC Funds.

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. A material decrease in our NAV in connection with additional borrowings could result in an inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of stockholders’ equity. This could have a material adverse effect on our operations, as it would reduce availability under the Credit Facility and could trigger mandatory prepayment obligations under the terms of the Credit Facility and our Notes.

***We operate in a highly competitive market for investment opportunities.***

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with public and private funds, including other BDCs, commercial and investment banks, commercial financing companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, also invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. Many of our potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Participants in our industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. We do not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that are lower than the rates we offer. We may lose investment opportunities if we do not match our competitors’ pricing, terms and structure. However, if we match our competitors’ pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

***Our borrowers may default on their payments, which may have a materially negative effect on our financial performance.***

Our primary business exposes us to credit risk, and the quality of our portfolio has a significant impact on our earnings. Credit risk is a component of our fair valuation of our portfolio companies. Negative credit events will lead to a decrease in the fair value of our portfolio companies.

In addition, market conditions have affected consumer confidence levels, which may harm the business of our portfolio companies and result in adverse changes in payment patterns. Increased delinquencies and default rates would negatively impact our results of operations. Deterioration in the credit quality of our portfolio could have a material adverse effect on our business, financial condition and results of operations. If interest rates rise, some of our portfolio companies may not be able to pay the escalating interest on our loans and may default.

We make long-term loans and debt investments, which may involve a high degree of repayment risk. Our investments with a deferred interest feature, such as OID income and PIK interest, could represent a higher credit risk than investments that must pay interest in full in cash on a regular basis. We invest in companies that may have limited financial resources, typically are highly leveraged and may be unable to obtain financing from traditional sources. Accordingly, a general economic downturn or severe tightening in the credit markets could materially impact the ability of our borrowers to repay their loans, which could significantly damage our business. Numerous other factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan or a downturn in its industry. A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans or foreclosure on the secured assets. This could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the loans or debt securities that we hold. In addition, our portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with our securities. This means that payments on such senior-ranking securities may have to be made before we receive any payments on our subordinated loans or debt securities. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral and may have a material adverse effect on our financial condition and results of operations.

***Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

As a BDC, we are required to carry our investments at fair value, which is derived from a market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide determination of our board of directors, then we would carry our investments at fair value, as determined in good faith by or under the direction of our board of directors. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation or loss. Unrealized losses of any given portfolio company could be an indication of such company's inability in the future to meet its repayment obligations to us.

If the fair value of our portfolio companies reflects unrealized losses that are subsequently realized, we could experience reductions of our income available for distribution in future periods that could materially harm our results of operations and cause a material decline in the value of our publicly traded common stock.

***We may be the target of litigation.***

We may be the target of securities litigation in the future, particularly if the trading price of our common stock and our Notes fluctuates significantly. We could also generally be subject to litigation, including derivative actions by our stockholders. Any litigation could result in substantial costs and divert management's attention and resources from our business and cause a material adverse effect on our business, financial condition and results of operations.

***We are dependent upon our Investment Adviser's key personnel for our future success, and if our Investment Adviser is unable to hire and retain qualified personnel or if our Investment Adviser loses any member of its management team, our ability to achieve our investment objectives could be significantly harmed.***

We depend on the diligence, skill and network of business contacts of the senior investment professionals of our Investment Adviser for our future success. We also depend, to a significant extent, on PennantPark Investment Advisers' access to the investment information and deal flow generated by these senior investment professionals and any others that may be hired by PennantPark Investment Advisers. Subject to the overall supervision of our board of directors, the managers of our Investment Adviser evaluate, negotiate, structure, close and monitor our investments. Our future success depends on the continued service of management personnel of our Investment Adviser. The departure of managers of PennantPark Investment Advisers could have a material adverse effect on our ability to achieve our investment objectives. In addition, we can offer no assurance that PennantPark Investment Advisers will remain our Investment Adviser. The Investment Adviser has the right, under the Investment Management Agreement, to resign at any time upon 60 days' written notice, whether we have found a replacement or not.

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

***We are exposed to risks associated with changes in interest rates that may affect our cost of capital and net investment income.***

Since we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds will increase and the interest rate on investments with an interest rate floor will not increase until interest rates exceed the applicable floor, which will reduce our net investment income. We may use interest rate risk management techniques, such as total return swaps and interest rate swaps, in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act and applicable commodities laws. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions and we will initially have to purchase or develop such expertise, which may diminish the actual benefits of any hedging strategy we employ. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk" for more information.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments once the interest rate exceeds the applicable floor. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle and may result in a substantial increase of the amount of incentive fees payable to our Investment Adviser with respect to Pre-Incentive Fee Net Investment Income.

General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in interest rates may result in both lower interest rates on new investments and higher repayments on current investments with higher interest rates, which may have an adverse impact on our net investment income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates or are subject to interest rate floors and also could increase our interest expense on our Credit Facility, thereby decreasing our net investment income. Also, an increase in interest rates available to investors could make an investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

***Our financial condition and results of operation depend on our ability to manage future growth effectively.***

Our ability to achieve our investment objectives depends on our ability to grow, which depends, in turn, on our Investment Adviser's ability to identify, invest in and monitor companies that meet our investment selection criteria. Accomplishing this result on a cost-effective basis is largely a function of our Investment Adviser's structuring of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. The management team of

PennantPark Investment Advisers has substantial responsibilities under our Investment Management Agreement. In order for us to grow, our Investment Adviser will need to hire, train, supervise and manage new employees. However, we can offer no assurance that any current or future employees will contribute effectively to the work of, or remain associated with, the Investment Adviser. We caution you that the principals of our Investment Adviser or Administrator may also be called upon to provide and currently do provide managerial assistance to portfolio companies and other investment vehicles, including other BDCs, which are managed by the Investment Adviser. Such demands on their time may distract them or slow our rate of investment. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

***We are highly dependent on information systems and systems failures could have a material adverse effect on our business, financial condition and results of operations.***

Our business depends on the communications and information systems, including financial and accounting systems, of the Investment Adviser, the Administrator and our sub-administrator. Any failure or interruption of such systems could cause delays or other problems in our activities. This, in turn, could have a material adverse effect on our business, financial condition and results of operations.

***We may not replicate the historical performance of other investment companies and funds with which our senior and other investment professionals have been affiliated.***

The 1940 Act imposes numerous constraints on the investment activities of BDCs. For example, BDCs are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded public companies (public companies with a market capitalization of less than $250 million), cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. These constraints may hinder the Investment Adviser’s ability to take advantage of attractive investment opportunities and to achieve our investment objectives. In addition, the investment philosophy and techniques used by the Investment Adviser may differ from those used by other investment companies and funds advised by the Investment Adviser. Accordingly, we can offer no assurance that we will replicate the historical performance of other investment companies and funds with which our senior and other investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

***Any failure on our part to maintain our status as a BDC would reduce our operating flexibility.***

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility, which could have a material adverse effect on our business, financial condition and results of operations.

***Loss of RIC tax status would substantially reduce our net assets and income available for debt service and distributions.***

We have operated and continue to operate so as to maintain our election to be treated as a RIC under Subchapter M of the Code. If we meet the annual source of income, Diversification Tests, and Annual Distribution Requirement, we generally will not be subject to corporate-level income taxation on income we timely distribute, or deem to distribute, as dividends for U.S. federal income tax purposes to our stockholders. We would cease to qualify for such tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting our Annual Distribution Requirement to our stockholders because, in certain cases, we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for debt service as well as reduce and/or affect the character and amount of our distributions to our stockholders. Even if we qualify as a RIC, we generally will be subject to a 4% nondeductible excise tax if we do not distribute to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary losses) generally for the one-year period ending on October 31 of the calendar year plus (3) any net ordinary income or capital gain net income for preceding years that was not distributed during such years.

***We may have difficulty paying our Annual Distribution Requirement if we recognize income before or without receiving cash representing such income.***

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as OID and PIK interest, which represents interest added to the loan balance and due at the end of the loan term. OID, which could be significant relative to our overall investment assets, and increases in loan balances as a result of PIK interest will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash, such as amounts attributable to foreign currency transactions. Our investments with a deferred interest feature, such as PIK interest, may represent a higher credit risk than loans for which interest must be paid in full in cash on a regular basis. For example, even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is scheduled to occur upon maturity of the obligation.

The part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide PIK or OID interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

In some cases, we may recognize income before or without receiving cash representing such income. As a result, we may have difficulty meeting the Annual Distribution Requirement. Accordingly, we may have to sell some of our investments at times or prices we would not consider advantageous, or raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements, which could have a material adverse effect on our business, financial condition and results of operations. If we are not able to obtain cash from other sources, we may lose our RIC tax status and thus be subject to corporate-level income tax.

***Because we intend to distribute substantially all of our income to our stockholders to maintain our tax status 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 generally are required to meet a 200% asset coverage ratio 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 treated as a RIC for federal income tax purposes. 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 corporate-level income tax.

***Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital.***

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of additional senior securities or other indebtedness, the issuance of additional shares of our common stock, the issuance of warrants or subscription rights to purchase certain of our securities, or from securitization transactions or through SBA debentures. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue additional debt securities or preferred securities, which we refer to collectively as "senior securities," and we may borrow money from banks, through the SBA debenture program or other financial institutions, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, the asset coverage ratio requirements permit us to issue senior securities or incur indebtedness subject to certain limitations, exclusive of the SBA debentures pursuant to our SEC exemptive relief. Our ability to pay distributions or issue additional senior securities would be restricted if our asset coverage ratio was not met. If the value of our assets declines, we may be unable to satisfy the asset coverage ratio. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous, which could materially damage our business, financial condition and results of operations.

- ***Senior Securities.*** As a result of issuing senior securities, including our Notes, we are exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank "senior" to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock. Furthermore, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest. Our senior securities may include conversion features that cause them to bear risks more closely associated with an investment in our common stock.

- ***Additional Common Stock.*** Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below NAV per share without first obtaining certain approvals from our stockholders and our board of directors. Also, subject to the requirements of the 1940 Act, we may issue rights to acquire our common stock at a price below the current NAV per share of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. However, when required to be undertaken, the procedures used by the board of directors to determine the NAV per share of our common stock within 48 hours of each offering of our common stock may differ materially from and will necessarily be more abbreviated than the procedures used by the board of directors to determine the NAV per share of our common stock at the end of each quarter because there is an extensive process each quarter to determine the NAV per share of our common stock which cannot be completed in 48 hours. Such procedures may yield a NAV that is less precise than the NAV determined at the end of each quarter. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current NAV per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with such rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, for us to file a post-effective amendment to a registration statement on Form N-2, we must then be qualified to register our securities under the requirements of Form S-3. We may actually issue shares above or below a future NAV. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders would experience voting dilution.

- ***Securitization.*** In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. Even though we expect the pool of loans that we contribute to any such securitization vehicle to be rated below investment grade, because the securitization vehicle's portfolio of loans would secure all of the debt issued by such vehicle, a portion of such debt may be rated investment grade, subject in each case to market conditions that may require such portion of the debt to be over collateralized and various other restrictions. If applicable accounting pronouncements or SEC staff guidance require us to consolidate the securitization vehicle's financial statements with our financial statements, any debt issued by it would be generally treated as if it were issued by us for purposes of the asset coverage ratio applicable to us. In such case, we would expect to retain all or a portion of the equity and/or subordinated notes in the securitization vehicle. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We may hold subordinated debentures in any such securitization vehicle and, if so, we would not consider such securities to be senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and less liquid.

- ***SBA Debentures.*** In addition to issuing securities and using securitizations to raise capital as described above, we have issued and may in the future issue, as permitted under SBA regulations and through our wholly owned subsidiaries, SBIC I, SBIC II and any future SBIC subsidiary, SBA debentures to generate cash for funding new investments. To issue SBA debentures, we may request commitments for debt capital from the SBA. Our SBIC Funds are and any future SBIC subsidiary may be exposed to any losses on its portfolio of loans, however, such debentures are non-recourse to us.

***Our SBIC Funds may be unable to make distributions to us that will enable us to meet or maintain RIC tax status.***

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level income taxes, we will be required to distribute substantially all of our consolidated investment company taxable income and capital gains net income, including income from our SBIC Funds, each taxable year as dividends to our stockholders. We will be 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 SBA regulations governing SBICs from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC Funds to make certain distributions to maintain our RIC tax status. 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 result in corporate level income tax on us.

***Our SBIC Funds are licensed by the SBA and are subject to SBA regulations.***

Our wholly owned subsidiaries, SBIC I and SBIC II, received licenses to operate as SBICs under the 1958 Act and are regulated by the SBA. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and regulates the types of financings and prohibits investing in certain industries. Compliance with SBIC requirements may cause our SBIC Funds to make investments at lower rates in order to qualify investments under the SBA regulations.

Further, SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant regulations. If our SBIC Funds fail to comply with applicable regulations, the SBA could, depending on the severity of the violation, limit or prohibit their use of debentures, declare outstanding debentures immediately due and payable, and/or limit them from making new investments. In addition, the SBA could revoke or suspend our SBIC Funds' licenses for willful or repeated violation of, or willful or repeated failure to observe, any provision of the 1958 Act or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because our SBIC Funds are our wholly owned subsidiaries.

SBA-guaranteed debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. Current SBA regulations limit the amount that any single SBIC may borrow to a maximum of $150.0 million, which is up to twice its regulatory capital, and a maximum of $350.0 million as part of a group of SBICs under common control.

***We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.***

Because we borrow funds to make investments, we are exposed to increased risk of loss due to our use of debt to make investments. A decrease in the value of our investments will have a greater negative impact on the NAV attributable to our common stock than it would if we did not use debt. Our ability to pay distributions may be restricted when our asset coverage ratio is not met, exclusive of the SBA debentures pursuant to SEC exemptive relief, and any cash that we use to service our indebtedness is not available for distribution to our common stockholders.

Our current debt is governed by the terms of our Notes, Credit Facility and the SBA debentures and may in the future be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing debt. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may also carry leverage related risks.

Additionally, our SBIC Funds have received borrowed funds and may in the future receive funds from the SBA through its debenture program. In connection with the filing of its initial SBA license application, PennantPark Investment received exemptive relief, in 2011, from the SEC to permit us to exclude the debt of our SBIC Funds from our consolidated asset coverage ratio. Our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than the applicable asset coverage ratio, which while providing increased investment flexibility, would also increase our exposure to risks associated with leverage.

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

We have indebtedness outstanding pursuant to our 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.

As of September 30, 2016, we had outstanding borrowings of $50.3 million under our Credit Facility, $250.0 million outstanding under our 2019 Notes, $71.3 million outstanding under our 2025 Notes and $197.5 million outstanding under the SBA debentures. Our consolidated debt outstanding was $569.1 million and had a weighted average annual interest rate at the time of 4.20%, 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 $569.1 million outstanding at September 30, 2016, at the weighted average annual rate of 4.20%, we would have to receive an annual yield of at least 1.97%. 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 at September 30, 2016 of 45% of total assets (including such borrowed funds), at the weighted average rate at the time of 4.20%, 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) | (23.1)% | (13.4)% | (3.7)% | 6.0% | 15.6% |

(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.”

***We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for loss and the risks of investing in us.***

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the distributions on any preferred stock we issue must be cumulative. If we issue preferred securities they would rank “senior” to common stock in our capital structure. Payment of distributions on, and repayment of the liquidation preference of, such preferred stock would typically take preference over any distributions or other payments to our common stockholders. Also, preferred stockholders are not typically subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference. Furthermore, preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of our common stockholders. Also, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in the best interest of stockholders.

***We may in the future determine to fund a portion of our investments with debt securities, which would magnify the potential for loss and the risks of investing in us.***

As a result of the issuance of our Notes and SBA debentures, we are exposed to typical risks associated with leverage, including an increased risk of loss and an increase in expenses, which are ultimately borne by our common stockholders. Payment of interest on such debt securities must take preference over any other distributions or other payments to our common stockholders. If we issue additional debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. In addition, such securities may be rated by rating agencies, and in obtaining a rating for such securities, we may be required to abide by operating and investment guidelines that could further restrict our operating flexibility. Furthermore, any cash that we use to service our indebtedness would not be available for the payment of distributions to our common stockholders.

***Our credit ratings may not reflect all risks of an investment in our debt securities.***

Our credit ratings, if any, are an assessment of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our publicly issued debt securities. Our credit ratings, generally may not reflect the potential impact of risks related to market conditions or other factors discussed above on the market value of, or trading market for, any publicly issued debt securities.

***A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our Notes, if any, or change in the debt markets could cause the liquidity or market value of our Notes to decline significantly.***

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when they come due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of our Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of our Notes of any changes in our credit ratings. The 2019 Notes are rated by Standard & Poor's Ratings Services, or S&P, and Fitch Ratings, or Fitch. There can be no assurance that their respective credit ratings will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely by S&P or Fitch if in either of their respective judgments future circumstances relating to the basis of the credit rating, such as adverse changes in our Company, so warrant. The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future.

***Market conditions may make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business.***

Our Credit Facility expires and our 2019 Notes mature in June and October 2019, respectively. We utilize proceeds from the Credit Facility and our 2019 Notes to make investments in our portfolio companies. The duration of many of our investments exceeds the duration of our indebtedness under our Credit Facility and 2019 Notes. This means that we will have to extend the maturity of our Credit Facility or refinance our indebtedness in order to avoid selling investments at maturity of any of our debt investments, at which time such sales may be at prices that are disadvantageous to us, which could materially damage our business. In addition, future market conditions may affect our ability to extend or refinance our Credit Facility and 2019 Notes on terms as favorable as those in our existing indebtedness. If we fail to extend or refinance the indebtedness outstanding under our Credit Facility by the time it becomes due and payable, the administrative agent of the Credit Facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the Credit Facility, subject to certain restrictions, any of which could have a material adverse effect on our business, financial condition and results of operations. The illiquidity of our investments may make it difficult for us to sell such investments. If we are required to sell our investments on short-term notice, we may not receive the value that we have recorded for such investments, and this could materially affect our results of operations.

***There are significant potential conflicts of interest which could impact our investment returns.***

The professionals of the Investment Adviser and Administrator may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by affiliates of us that currently exist or may be formed in the future. The Investment Adviser and Administrator may be engaged by such funds at any time and without the prior approval of our stockholders or our board of directors. Our board of directors monitors any potential conflict that may arise upon such a development. Accordingly, if this occurs, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. Currently, the executive officers and directors, as well as the current senior investment professionals of the Investment Adviser, may serve as officers and directors of our controlled affiliates and affiliated funds. In addition, we note that any affiliated investment vehicles currently formed or formed in the future and managed by the Investment Adviser or its affiliates may have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities between us and such other entities. Although the Investment Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by the Investment Adviser or an investment manager affiliated with the Investment Adviser. In any such case, when the Investment Adviser identifies an investment, it is forced to choose which investment fund should make the investment. We may co-invest on a concurrent basis with any other affiliates that the Investment Adviser currently has or forms in the future, subject to compliance with applicable regulations and regulatory guidance and our allocation procedures.

In the ordinary course of our investing activities, we pay investment advisory and incentive fees to the Investment Adviser, and reimburse the Investment Adviser for certain expenses it incurs. As a result, investors in our common stock invest on a "gross" basis and receive distributions on a "net" basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Accordingly, there may be times when the management team of the Investment Adviser has interests that differ from those of our stockholders, giving rise to a conflict.

We have entered into a License Agreement with PennantPark Investment Advisers, pursuant to which the Investment Adviser has agreed to grant us a royalty-free non-exclusive license to use the name "PennantPark." The License Agreement will expire (i) upon expiration or termination of the Investment Management Agreement, (ii) if the Investment Adviser ceases to serve as our investment adviser, (iii) by either party upon 60 days' written notice or (iv) by the Investment Adviser at any time in the event we assign or attempt to assign or sublicense the License Agreement or any of our rights or duties thereunder without the prior written consent of the Investment Adviser. Other than with respect to this limited license, we have no legal right to the "PennantPark" name.

In addition, we pay PennantPark Investment Administration, an affiliate of the Investment Adviser, our allocable portion of overhead and other expenses incurred by PennantPark Investment Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. These arrangements may create conflicts of interest that our board of directors must monitor.

***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. However, as a result of our irrevocable election to apply the fair value option to our Credit Facility and our Notes, future decreases of fair value of our debt is expected to have a corresponding increase to our NAV. Similarly, future increases in the fair value of our debt may have a corresponding decrease to our NAV. Any future indebtedness that we elect the fair value option for may have similar effects on our NAV as our Credit Facility and our Notes. This is expected to mitigate volatility in our earnings and NAV. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.***

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including conversion to open-end status and, accordingly, preferred stockholders could veto any such changes in addition to any ability of common and preferred stockholders, voting together as a single class, to veto such matters. Restrictions imposed on the declarations and payment of distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes, which could have a material adverse effect on our business, financial condition and results of operations.

***We may in the future issue securities for which there is no public market and for which we expect no public market to develop.***

In order to raise additional capital, we may issue debt, or other securities for which no public market exists, and for which no public market is expected to develop. If we issue shares of our common stock as a component of a unit security, we would expect the common stock to separate from the other securities in such unit after a period of time or upon occurrence of an event and to trade publicly on the NASDAQ Global Select Market, which may cause volatility in our publicly traded common stock. To the extent we issue securities for which no public market exists and for which no public market develops, a purchaser of such securities may not be able to liquidate the investment without considerable delay, if at all. If a market should develop for our debt and other securities, the price may be highly volatile, and our debt and other securities may lose value.

***If we issue preferred stock, other debt securities, convertible debt securities or units, the NAV and market value of our common stock may become more volatile.***

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities, convertible debt or units would likely cause the NAV and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced or entirely eliminated. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the NAV of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in NAV to the holders of our common stock than if we were not leveraged through the issuance of preferred stock, debt securities or convertible debt. This decline in NAV would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios or other covenants which may be required by the preferred stock, debt securities, convertible debt or risk a downgrade in the ratings of the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities, convertible debt or units. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities, convertible debt or units may have different interests than holders of common stock and may at times have disproportionate influence over our business.

***The trading market or market value of any publicly issued debt or convertible debt securities may be volatile.***

If we publicly issue debt or convertible debt securities, such as the 2025 Notes, they initially will not have an established trading market. We cannot assure investors that a trading market for our publicly issued debt or convertible debt securities would develop or be maintained if developed. In addition to our creditworthiness, many factors may have a material adverse effect on the trading market for, and market value of, our publicly issued debt or convertible debt securities.

These factors include the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical or similar to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption, repayment or convertible features, if any, of these debt securities;
- the level, direction and volatility of market interest rates; and
- market rates of interest higher or lower than rates borne by the debt securities.

There also may be a limited number of buyers for our debt securities. This too may have a material adverse effect on the market value of the debt securities or the trading market for the debt securities. Our debt securities may include convertible features that cause them to more closely bear risks associated with an investment in our common stock.

***Terms relating to debt redemption may have a material adverse effect on the return on any debt securities.***

If we issue debt securities that are redeemable at our option, we may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if the debt securities are subject to mandatory redemption, we may be required to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In this circumstance, a holder of our debt securities may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the debt securities being redeemed.

***If we issue subscription rights or warrants for our common stock, your interest in us may be diluted as a result of such rights or warrants offering.***

Stockholders who do not fully exercise rights or warrants issued to them in an offering of subscription rights or warrants to purchase our common stock should expect that they will, at the completion of an offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights or warrants. We cannot state precisely the amount of any such dilution in share ownership because we do not know what proportion of the common stock would be purchased as a result of any such offering.

In addition, if the subscription price or warrant exercise price is less than our NAV per share of common stock at the time of an offering, then our stockholders would experience an immediate dilution of the aggregate NAV of their shares as a result of the offering. The amount of any such decrease in NAV is not predictable because it is not known at this time what the subscription price, warrant exercise price or NAV per share will be on the expiration date of such rights offering or what proportion of our common stock will be purchased as a result of any such offering.

***The impact of recent financial reform legislation on us is uncertain.***

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, became effective in 2010. Although many provisions of the Dodd-Frank Act have delayed effectiveness or will not become effective until the relevant federal agencies issue new rules to implement the Dodd-Frank Act, the Dodd-Frank Act may nevertheless have a material adverse impact on the financial services industry as a whole and on our business, financial condition and results of operations. Accordingly, we are continuing to evaluate the effect the Dodd-Frank Act or implementing its regulations will have on our business, financial condition and results of operations.

***Changes in laws or regulations governing our operations or those of our portfolio companies may adversely affect our business.***

We and our portfolio companies are subject to laws and regulation at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations that govern our operations or those of our portfolio companies could have a material adverse effect on our business, financial condition and results of operations. See “Business—Regulation” for more information.

***Our board of directors may change our investment objectives, operating policies and strategies without prior notice or stockholder approval.***

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

***We are subject to risks associated with cybersecurity and cyber incidents.***

Our business relies on secure information technology systems. These systems are subject to potential attacks, including through adverse events that threaten the confidentiality, integrity or availability of our information resources (i.e., cyber incidents). These attacks could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption and result in disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships, any of which could have a material adverse effect on our business, financial condition and results of operations. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by the Investment Adviser and third-party service providers.

**RISKS RELATING TO THE ILLIQUID NATURE OF OUR PORTFOLIO ASSETS**

***We invest in illiquid assets, and our valuation procedures with respect to such assets may result in recording values that are materially different than the values we ultimately receive upon disposition of such assets.***

All of our investments are recorded using broker or dealer quotes, if available, or at fair value as determined in good faith by our board of directors. We expect that most, if not all, of our investments (other than cash and cash equivalents) and the fair value of the Credit Facility will be classified as Level 3 under the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 820, Fair Value Measurements and Disclosures, or ASC 820. This means that the portfolio valuations will be based on unobservable inputs and our own assumptions about how market participants would price the asset or liability. We expect that inputs into the determination of fair value of our portfolio investments and Credit Facility borrowings will require significant management judgment or estimation. Even if observable market data are available, such information may be the result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by such a disclaimer materially reduces the reliability of such information. As a result, there will be uncertainty as to the value of our portfolio investments.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. In determining fair value in good faith, we generally obtain financial and other information from portfolio companies, which may represent unaudited, projected or pro forma financial information. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses; we are instead required by the 1940 Act to specifically fair value each individual investment on a quarterly basis. We record unrealized appreciation if we believe that our investment has appreciated in value. Likewise, we record unrealized depreciation if we believe that our investment has depreciated in value. We adjust quarterly the valuation of our portfolio to reflect our board of directors’ determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded on our Consolidated Statements of Operations as net change in unrealized appreciation or depreciation.

All of our investments were recorded at fair value as determined in good faith by our board of directors. Our board of directors uses the services of nationally recognized independent valuation firms to aid it in determining the fair value of our investments. The factors that may be considered in fair value pricing of our investments include the nature and realizable value of any collateral, the portfolio company’s ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Because valuations may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the value received in an actual transaction. Additionally, valuations of private securities and private companies are inherently uncertain. Our NAV could be adversely affected if our determinations regarding the fair value of our investments were materially lower than the values that we ultimately realize upon the disposal of such investments.

***The lack of liquidity in our investments may adversely affect our business.***

We may acquire our investments directly from the issuer in privately negotiated transactions. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. We typically exit our investments when the portfolio company has a liquidity event such as a sale, refinancing, or initial public offering of the company, but we are not required to do so.

The illiquidity of our investments may make it difficult or impossible for us to sell such investments if the need arises, particularly at times when the market for illiquid securities is substantially diminished. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments, which could have a material adverse effect on our business, financial condition and results of operations. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

Investments purchased by us that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the investments, market events, economic conditions or investor perceptions. Domestic and foreign markets are complex and interrelated, so that events in one sector of the world markets or economy, or in one geographical region, can reverberate and have materially negative consequences for other market, economic or regional sectors in a manner that may not be foreseen and which may materially harm our business.

***A general disruption in the credit markets could materially damage our business.***

We are susceptible to the risk of significant loss if we are forced to discount the value of our investments in order to provide liquidity to meet our debt maturities. Our borrowings under our Credit Facility are collateralized by the assets in our investment portfolio (excluding assets held by our SBIC Funds). A general disruption in the credit markets could result in diminished demand for our securities. In addition, with respect to over-the-counter traded securities, the continued viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. Our liquidity could be impaired further by an inability to access the capital markets or to draw down our Credit Facility. These situations may arise due to circumstances that we may be unable to control, such as a general disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or an operational problem that affects our counterparties or us, and could materially damage our business.

***We may invest in over-the-counter securities, which have and may continue to face liquidity constraints, to provide us with liquidity.***

The market for over-the-counter traded securities has and may continue to experience limited liquidity and other weakness as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

**RISKS RELATED TO OUR INVESTMENTS**

***Our investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.***

We intend to invest primarily in senior secured debt, mezzanine debt and selected equity investments issued by U.S. and foreign middle-market companies.

1. ***Senior Secured Debt:*** When we extend senior secured debt, which we define to include first lien debt, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, although this may not always be the case. We expect this security interest, if any, to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our debts may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a senior secured debt investment is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

2. ***Mezzanine Debt:*** Our mezzanine debt investments, which we define to include second lien secured and subordinated debt, will generally be subordinated to senior secured debt and will generally be unsecured. Our second lien debt is subordinated debt that benefits from a collateral interest in the borrower. As such, other creditors may rank senior to us in the event of insolvency. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we may not receive cash interest or principal prior to the maturity of some of our mezzanine debt investments, such investments may be of greater risk than cash paying loans.

3. ***Equity Investments:*** We have made and expect to continue to make select equity investments, all of which are subordinated to debt investments. In addition, when we invest in senior secured debt or mezzanine debt, we may acquire warrants to purchase equity investments from time to time. Our goal is ultimately to dispose of these equity investments and realize gains upon our disposition of such interests. However, the equity investments we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity investments, and any gains that we do realize on the disposition of any equity investments may not be sufficient to offset any other losses we experience. In addition, many of the equity securities in which we invest may not pay dividends on a regular basis, if at all. Furthermore, we may hold equity investments in partnerships through a taxable subsidiary for federal income tax purposes. Upon sale or exit of such investment, we may pay taxes at regular corporate tax rates, which will reduce the amount on gains or dividends available for distributions to our stockholders.

In addition, investing in middle-market companies involves a number of significant risks, including:

- companies may be highly leveraged, have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;

- they typically have shorter operating histories, more limited publicly available information, narrower product lines, more concentration of revenues from customers and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;

- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our Investment Adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to refinance their outstanding indebtedness upon maturity.

***Under the 1940 Act we may invest up to 30% of our assets in investments that are not qualifying assets for business development companies. If we do not invest a sufficient portion of our assets in qualifying assets, we could be precluded from investing in assets that we deem to be attractive.***

As a BDC, we may not acquire any asset other than qualifying assets, as defined under the 1940 Act, unless at the time the acquisition is made such qualifying assets represent at least 70% of the value of our total assets. Qualifying assets include investments in U.S. operating companies whose securities are not listed on a national securities exchange and companies listed on a national securities exchange subject to a maximum market capitalization of $250 million. Qualifying assets also include cash, cash equivalents, government securities and high quality debt securities maturing in one year or less from the time of investment.

We believe that most of our debt and equity investments do and will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets at the time of the proposed investment, we will be prohibited from making any additional investment that is not a qualifying asset and could be forced to forgo attractive investment opportunities. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

***We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on investments in other investment companies. To the extent that we assume large positions in the securities of a small number of issuers, our NAV may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond the Diversification Requirements, we do not have fixed guidelines for portfolio diversification, and our investments could be concentrated in relatively few portfolio companies or industries.

***Economic recessions or downturns could impair our portfolio companies and harm our operating results.***

Many of our portfolio companies are susceptible to economic or industry centric slowdowns or recessions and may be unable to repay debt from us during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our debt investments and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a material decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and materially harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and potential termination of its debt and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company, and any restructuring could further cause adverse effects on our business. Depending on the facts and circumstances of our investments and the extent of our involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy court may recharacterize our debt investments as equity investments and subordinate all or a portion of our claim to that of other creditors. This could occur regardless of how we may have structured our investment. In addition, we cannot assure you that a bankruptcy court would not take actions contrary to our interests.

***If we fail to make follow-on investments in our portfolio companies, this could materially impair the value of our portfolio.***

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to:

- increase or maintain in whole or in part our equity ownership percentage;
- exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or
- attempt to preserve or enhance the value of our investment.

We have the discretion to make any follow-on investments, subject to the availability of capital resources and regulatory considerations. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. Any failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful transaction or business. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with BDC requirements or the desire to maintain our RIC tax status.

***Because we do not generally hold controlling equity interests in our portfolio companies, we are not in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.***

Because we do not generally have controlling equity positions in our portfolio companies, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity for the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company, and may therefore suffer a decrease in the market value of our investments.

***An investment strategy focused primarily on privately held companies, including controlled equity interests, presents certain challenges, including the lack of available or comparable information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.***

We have invested and intend to continue to invest primarily in privately held companies. Generally, little public information exists about these companies, and we rely on the ability of our Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If they are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose value on our investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could have a material adverse impact on our investment returns as compared to companies investing primarily in the securities of public companies.

***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies and our portfolio companies may be highly leveraged.***

We invest primarily in senior secured debt, mezzanine debt and equity investments issued by our portfolio companies. The portfolio companies usually will have, or may be permitted to incur, other debt that ranks equally with, or senior to, our investments, and they may be highly leveraged. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to our debt investments. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***Our incentive fee may induce the Investment Adviser to make speculative investments.***

The incentive fee payable by us to PennantPark Investment Advisers may create an incentive for PennantPark Investment Advisers to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our Investment Adviser is calculated based on a percentage of our NAV. This may encourage our Investment Adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock. In addition, our Investment Adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle applicable to the portion of the incentive fee based on net capital gains. As a result, the Investment Adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The part of our incentive fee payable by us to PennantPark Investment Advisers that relates to net investment income is computed and paid on income that has been accrued but that has not been received in cash. PennantPark Investment Advisers is not obligated to reimburse us for any such incentive fees even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued. As a result, there is a risk that we will pay incentive fees with respect to income that we never receive in cash.

***Any investments in distressed debt may not produce income and may require us to bear large expenses in order to protect and recover our investment.***

Distressed debt investments may not produce income and may require us to bear certain additional expenses in order to protect and recover our investment. Therefore, to the extent we invest in distressed debt, our ability to achieve current income for our stockholders may be diminished. We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which we invest will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt we hold, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. If we participate in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities.

***We may be obligated to pay our Investment Adviser incentive compensation even if we incur a loss.***

Our Investment Adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. Our Pre-Incentive Fee Net Investment Income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our Consolidated Statements of Operations for that quarter. Thus, we may be required to pay our Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio, NAV or we incur a net loss for that quarter.

***Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.***

Our investment strategy contemplates potential investments in securities of companies located outside of the United States. Investments in securities of companies located outside of the United States would not be qualifying assets under Section 55(a) of the 1940 Act. Investing in companies located outside of the United States may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political, economic and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, economic and political developments. We may employ hedging techniques such as using our Credit Facility's multicurrency capability to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective.

***We may make investments that cause our stockholders to bear investment advisory fees and other expenses on such investments in addition to our management fees and expenses.***

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. To the extent we so invest, we will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay investment advisory fees, consisting of a base management fee and incentive fees, to PennantPark Investment Advisers with respect to investments in the securities and instruments of other investment companies under the Investment Management Agreement. With respect to any such investments, each of our stockholders will bear his or her share of the investment advisory fees of PennantPark Investment Advisers as well as indirectly bearing the investment advisory fees and other expenses of any investment companies in which we invest.

***We may expose ourselves to risks if we engage in hedging transactions.***

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may borrow under a multicurrency credit facility in currencies selected to minimize our foreign currency exposure or, to the extent permitted by the 1940 Act and applicable commodities laws, use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our interest rate or currency positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging designed to gain from those changes in interest rates or foreign currency exposures, for instance, may also limit the opportunity for gain if the changes in the underlying positions should move against such hedges. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in worse overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations. Our ability to engage in hedging transactions may also be adversely affected by the rules of the Commodity Futures Trading Commission.

***The effect of global climate change may impact the operations of our portfolio companies.***

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

## RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK

***We may obtain the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock. If we receive such approval from stockholders in the future, we may issue shares of our common stock at a price below the then current NAV per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our NAV per share.***

We have in the past obtained the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock in one or more offerings for a twelve-month period, and we may attempt to obtain such approval in the future. Such approval has allowed, and may again allow, us to access the capital markets in a way that we typically are unable to do as a result of restrictions that, absent stockholder approval, apply to BDCs under the 1940 Act.

Any sale or other issuance of shares of our common stock at a price below NAV per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our NAV value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our NAV per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our NAV per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offerings we make at a price below our then current NAV in the future in a prospectus supplement issued in connection with any such offering.

The determination of NAV in connection with an offering of shares of common stock will involve the determination by our board of directors or a committee thereof that we are not selling shares of our common stock at a price below the then current NAV of our common stock at the time at which the sale is made or otherwise in violation of the 1940 Act unless we have previously received the consent of the majority of our common stockholders to do so and the board of directors decides such an offering is in the best interests of our common stockholders. Whenever we do not have current stockholder approval to issue shares of our common stock at a price per share below our then current NAV per share, the offering price per share (after any distributing commission or discount) will equal or exceed our then current NAV per share, based on the value of our portfolio securities and other assets determined in good faith by our board of directors as of a time within 48 hours (excluding Sundays and holidays) of the sale.

***There is a risk that our stockholders may not receive distributions or that our distributions may not grow over time.***

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage ratio requirements applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be forced to liquidate some of our investments and raise cash in order to make distribution payments, which could materially harm our business. Finally, to the extent we make distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of our common stock.

***Investing in our shares may involve an above average degree of risk.***

The investments we make in accordance with our investment objectives may result in a higher amount of risk and volatility than alternative investment options or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

***Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.***

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. If this occurs and continues it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

***We may allocate the net proceeds from any offering of our securities in ways with which you may not agree.***

We have significant flexibility in investing the net proceeds of any offering of our securities and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

***Our shares may trade at discounts from NAV or at premiums that are unsustainable over the long term.***

Shares of BDCs may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares closed on the NASDAQ Global Select Market at $7.52 and $6.47 on September 30, 2016 and 2015, respectively. Our NAV per share was $9.05 and $9.82 for the same periods. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

***The market price of our common stock may fluctuate significantly.***

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs, BDCs or SBICs;
- any loss of our BDC or RIC status or any loss of our subsidiaries' SBIC licenses;
- changes in earnings or variations in operating results;
- changes in prevailing interest rates;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the inability of our Investment Adviser to employ additional experienced investment professionals or the departure of any of the Investment Adviser's key personnel;
- operating performance of companies comparable to us;
- general national and international economic trends and other external factors;

- general price and volume fluctuations in the stock markets, including as a result of short sales;
- conversion features of subscription rights, warrants or convertible debt; and
- loss of a major funding source.

Since our initial listing on the NASDAQ Global Select Market, our shares of common stock have traded at a wide range of prices. We can offer no assurance that our shares of common stock will not display similar volatility in future periods.

***We may be unable to invest the net proceeds raised from offerings on acceptable terms, which would harm our financial condition and operating results.***

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less or use the net proceeds from such offerings to reduce then-outstanding obligations under our Credit Facility or any future Credit Facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment selection criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.

The SBA also limits an SBIC's choices to invest idle funds to the following types of securities:

- direct obligations of, or obligations guaranteed as to principal and interest by, the U.S. government, which mature within 15 months from the date of the investment;
- repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government);
- certificates of deposit with a maturity of one year or less, issued by a federally insured institution; or
- a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less.

***You may have current tax liabilities on distributions you reinvest in our common stock.***

Under the dividend reinvestment plan, if you own shares of our common stock registered in your own name, you will have all cash distributions automatically reinvested in additional shares of our common stock unless you opt out of the dividend reinvestment plan by delivering a written notice to the plan administrator prior to the record date of the next dividend or distribution. If you have not "opted out" of the dividend reinvestment plan, you will be deemed to have received, and for federal income tax purposes will be taxed on, the amount reinvested in our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, you may have to use funds from other sources to pay your income tax liabilities on the value of the common stock received. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Distributions" for more information.

***There is a risk that our common stockholders may receive our stock as distributions in which case they may be required to pay taxes in excess of the cash they receive.***

We may distribute our common stock as a dividend of our taxable income and a stockholder could receive a portion of the dividends declared and distributed by us in shares of our common stock with the remaining amount in cash. A stockholder will be considered to have recognized dividend income generally equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. The total dividend declared would be taxable income to a stockholder even though he or she may only receive a relatively small portion of the dividend in cash to pay any taxes due on the dividend. We have not elected to distribute stock as a dividend but reserve the right to do so.

***We incur significant costs as a result of being a publicly traded company.***

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act, and other rules implemented by the SEC and the listing standards of the NASDAQ Stock Market LLC and NYSE.

***Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.***

The Maryland General Corporation Law, our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of us or the removal of our directors. We are subject to the Maryland Business Combination Act, the application of which is subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer.

In addition, our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our common stock by any person. If we amend our bylaws to repeal the exemption from such act, it may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such an offer. Our bylaws require us to consult with the SEC staff before we repeal such exemption. Also, our charter provides for classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorize our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue.

These anti-takeover provisions may inhibit a change of control in circumstances that could give our stockholders the opportunity to realize a premium over the market price for our common stock.

**RISKS RELATING TO AN INVESTMENT IN OUR DEBT SECURITIES**

***Our Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.***

Our Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, our Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of our Notes. As of September 30, 2016 and 2015, we had $50.3 million and $136.9 million (including a $30.0 million temporary draw), respectively, outstanding under the Credit Facility. The Credit Facility is secured by substantially all of the assets in our portfolio (other than assets held by our SBIC Funds), and the indebtedness under the Credit Facility is therefore effectively senior in right of payment to our Notes to the extent of the value of such assets.

***Our Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

Our Notes are obligations exclusively of PennantPark Investment Corporation and not of any of our subsidiaries. None of our subsidiaries are or act as guarantors of our Notes and neither the 2019 Notes nor the 2025 Notes is required to be guaranteed by any subsidiaries we may acquire or create in the future. Our secured indebtedness with respect to the SBA debentures is held through our SBIC Funds. The assets of any such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of our Notes.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of our Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, our Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. As of September 30, 2016 and 2015, our SBIC Funds had $225.0 million in debt commitments, of which $197.5 million and $150.0 million was drawn, respectively. All of such indebtedness is structurally senior to our Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to our Notes.

***The indenture under which our Notes were issued contains limited protection for their respective holders.***

The indenture under which our Notes were issued offers limited protection to their respective holders. The terms of the indenture and our Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on an investment in our Notes. In particular, the terms of the indentures and our Notes do not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to our Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to our Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore would rank structurally senior to our Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our subsidiaries and therefore would rank structurally senior in right of payment to our Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;
- pay distributions on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to our Notes;
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of distributions or other amounts to us from our subsidiaries.

Furthermore, the terms of the indenture and our Notes do not protect their respective holders in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity, except as required under the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of our Notes may have important consequences for their holders, including making it more difficult for us to satisfy our obligations with respect to our Notes or negatively affecting their trading value.

Certain of our current debt instruments include more protections for their respective holders than the indenture and our Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and our Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of our Notes.

***An active trading market for our Notes may not develop, which could limit their market price or the ability of their respective holders to sell them. If a rating agency assigns our Notes a non-investment grade rating, they may be subject to greater price volatility than similar securities without such a rating.***

We have not and do not intend to list the 2019 Notes on any securities exchange or for quotation on any automated dealer quotation system. We have listed the 2025 Notes on the NYSE. However, we cannot provide any assurances that an active trading market will develop for the 2019 Notes and 2025 Notes or that their holders will be able to sell them. Our Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. If a rating agency assigns our Notes a non-investment grade rating, they may be subject to greater price volatility than securities of similar maturity without such a non-investment grade rating. We cannot assure holders of our Notes that a liquid trading market will develop for them, that holders will be able to sell their 2019 Notes and 2025 Notes at a particular time or that the price holders receive upon such sale will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for our Notes may be harmed. Accordingly, holders of our Notes may be required to bear the financial risk for an indefinite period of time.

***If we default on our obligations to pay our other indebtedness, we may not be able to make payments on our Notes.***

Any default under the agreements governing our indebtedness, including a default under our Credit Facility or under other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on our Notes and substantially decrease their market value. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under our Credit Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the agreements relating to our Credit Facility or other debt that we may incur in the future to avoid being in default. If we breach our covenants under our Credit Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under our Credit Facility, could proceed against the collateral securing the debt. Because our Credit Facility has, and any future debt will likely will have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

***FATCA withholding may apply to payments to certain foreign entities.***

Payments made under our Notes to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) may be subject to a U.S. withholding tax of 30% under a U.S. federal tax law (commonly known as "FATCA"). This tax may apply to certain payments of interest as well as payments made upon maturity, redemption, or sale of our Notes, unless the foreign financial institution or non-financial foreign entity complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Holders of our Notes should consult their own tax advisors regarding FATCA and how it may affect their investment in our Notes.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of September 30, 2016, we did not own any real estate or other physical properties materially important to our operation. We believe that the office facilities of the Investment Adviser and Administrator are suitable and adequate for our business as it is contemplated to be conducted.

**Item 3. 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 in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable.

PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the NASDAQ Global Select Market under the symbol "PNNT." The following table lists the high and low closing sale prices for our common stock, the closing sale prices as a premium or (discount) to our NAV per share and distributions declared per share since October 1, 2014.

| Period | NAV(1) | Closing Sale Prices | | Premium / (Discount) of High Sale Price to NAV (2) | Premium / (Discount) of Low Sale Price to NAV (2) | Distributions Declared |
|---|---|---|---|---|---|---|
| | | High | Low | | | |
| **Fiscal Year Ended September 30, 2016** | | | | | | |
| Fourth quarter | $ 9.05 | $ 8.16 | $ 6.88 | (10)% | (24)% | $ 0.28 |
| Third quarter | 8.94 | 6.83 | 6.10 | (24) | (32) | 0.28 |
| Second quarter | 8.83 | 6.43 | 4.95 | (27) | (44) | 0.28 |
| First quarter | 9.02 | 7.31 | 6.00 | (19) | (33) | 0.28 |
| **Fiscal Year Ended September 30, 2015** | | | | | | |
| Fourth quarter | 9.82 | 8.69 | 6.37 | (12) | (35) | 0.28 |
| Third quarter | 10.04 | 9.70 | 8.78 | (3) | (13) | 0.28 |
| Second quarter | 10.25 | 9.77 | 8.17 | (5) | (20) | 0.28 |
| First quarter | 10.43 | 11.09 | 9.01 | 6 | (14) | 0.28 |

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sale prices less NAV per share, divided by the quarter-end NAV per share.

Shares of BDCs may trade at a market price both above and below the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares closed on the NASDAQ Global Select Market at $7.52 and $6.47 as of September 30, 2016 and 2015, respectively. Our NAV per share was $9.05 and $9.82 for the same periods. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below our NAV in the future. As of November 21, 2016, we had 12 stockholders of record.

***Sale of Unregistered Securities***

We did not engage in any sales of unregistered securities during the fiscal year ended September 30, 2016.

***Issuer Purchases of Equity Securities***

We did not repurchase any of our common stock under our share repurchase plan during the fourth quarter ended September 30, 2016.

## DISTRIBUTIONS

We intend to continue making quarterly distributions to our stockholders. The timing and amount of our quarterly distributions, if any, is determined by our board of directors. Any distributions to our stockholders are declared out of assets legally available for distribution. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders. The following table reflects the cash distributions that we have declared on our common stock in the last two fiscal years.

| Record Dates | Payment Dates | Distributions Declared |
|---|---|---|
| **Fiscal Year Ended September 30, 2016** | | |
| September 21, 2016 | October 3, 2016 | $ 0.28 |
| June 20, 2016 | July 1, 2016 | 0.28 |
| March 18, 2016 | April 1, 2016 | 0.28 |
| December 24, 2015 | January 4, 2016 | 0.28 |
| **Total** | | $ 1.12 |
| **Fiscal Year Ended September 30, 2015** | | |
| September 21, 2015 | October 1, 2015 | $ 0.28 |
| June 15, 2015 | July 1, 2015 | 0.28 |
| March 20, 2015 | April 1, 2015 | 0.28 |
| December 19, 2014 | January 2, 2015 | 0.28 |
| **Total** | | $ 1.12 |

In January 2017, a Form 1099-DIV will be sent to stockholders subject to information reporting that will state the amount and composition of distributions and provide information with respect to appropriate tax treatment of our distributions.

The tax characteristics of distributions declared, in accordance with Section 19(a) of the 1940 Act, during the fiscal years ended September 30, 2016 and 2015 from ordinary income totaled $58.1 million and $83.3 million, or $0.81 and $1.11 per share, respectively, based on weighted average shares outstanding for the respective periods. Additionally, for the fiscal year ended September 30, 2016, we had long-term capital gain distributions of $21.7 million, or $0.30 per share, based on weighted average shares outstanding.

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend or other 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 when applicable to us as a BDC under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain minimum percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our tax status. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

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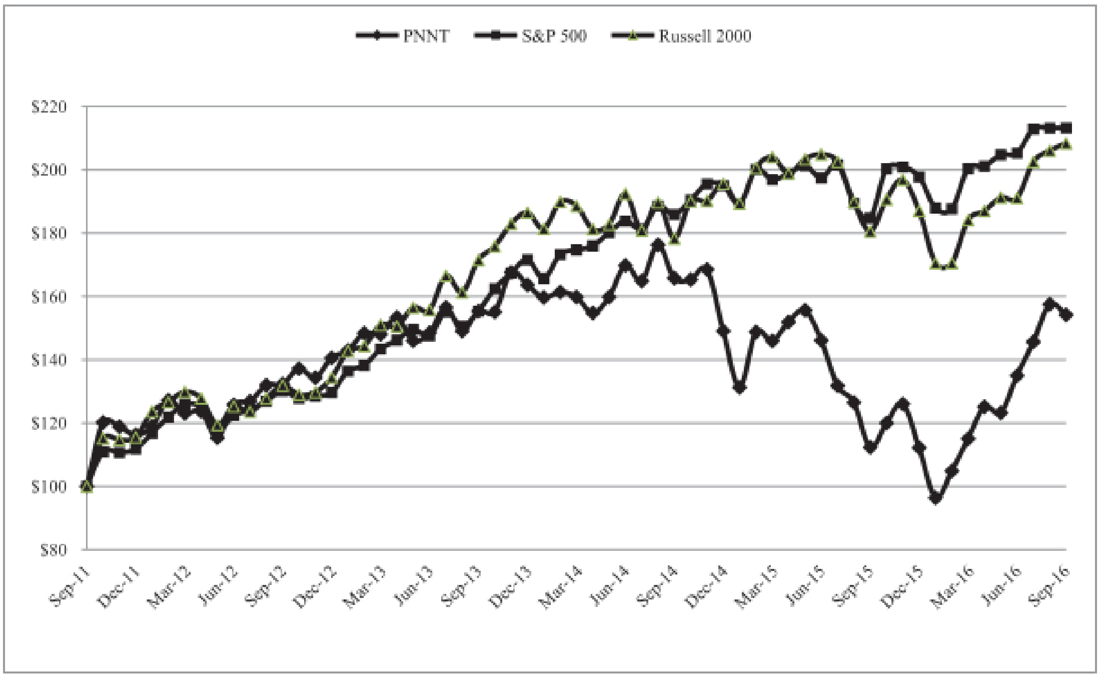
***Stock Performance Graph***

This graph compares the return on our common stock with that of the Standard & Poor’s 500 Stock Index and the Russell 2000 Financial Services Index, for the last five fiscal years. The graph assumes that, on September 30, 2011, a person invested $100 in each of our common stock, the S&P 500 Index, and the Russell 2000 Financial Services Index. The graph measures total stockholder return, which takes into account both changes in stock price and distributions. It assumes that distributions paid are invested in like securities.




The graph and other information furnished under this Part II Item 5 of this Report shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act. The stock price performance included in the above graph is not necessarily indicative of future stock price performance.

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**Item 6. Selected Financial Data**

We have derived the data below from our audited and unaudited financial data. The Consolidated Statement of Operations data, per share data and Consolidated Statement of Assets and Liabilities data presented are derived from our audited Consolidated Financial Statements. These selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | For the years ended September 30, | | | | |
|---|---|---|---|---|---|
| | **2016** | **2015** | **2014** | **2013** | **2012** |
| **(Dollar amounts in thousands, except per share data)** | | | | | |
| **Consolidated Statement of Operations data:** | | | | | |
| Total investment income | $ 142,071 | $ 161,629 | $ 147,936 | $ 129,187 | $ 113,392 |
| Total expenses | 77,997(1) | 79,371 | 76,608 | 62,189 | 56,323 |
| Net investment income | 70,615 | 82,258 | 71,329 | 66,998 | 57,069 |
| Net realized and unrealized (loss) gain | (51,878) | (92,504) | 39,655 | 24,780 | 6,284 |
| Net increase (decrease) in net assets resulting from operations | 18,737 | (10,246) | 110,983 | 91,778 | 63,353 |
| **Per share data:** | | | | | |
| Net asset value | 9.05 | 9.82 | 11.03 | 10.49 | 10.22 |
| Net investment income (2) | 0.99 | 1.10 | 1.06 | 1.01 | 1.08 |
| Net realized and unrealized (loss) gain (2) | (0.73) | (1.24) | 0.60 | 0.38 | 0.12 |
| Net increase (decrease) in net assets resulting from operations (2) | 0.26 | (0.14) | 1.66 | 1.39 | 1.20 |
| Distributions declared (2), (3) | 1.11 | 1.11 | 1.15 | 1.12 | 1.13 |
| **Consolidated Statement of Assets and Liabilities data:** | | | | | |
| Total assets | 1,238,936 | 1,368,778 | 1,411,827 | 1,153,327 | 1,018,968 |
| Total investment portfolio | 1,153,680 | 1,299,048 | 1,318,055 | 1,078,176 | 990,480 |
| Borrowings outstanding (4) | 559,589 | 602,865 | 526,668 | 363,900 | 294,452 |
| Total net asset value | 643,367 | 716,591 | 828,010 | 697,506 | 669,717 |
| **Other data:** | | | | | |
| Total return (5) | 36.64% | (32.51)% | 6.76% | 17.37% | 28.71% |
| Number of portfolio companies (6) | 56 | 61 | 67 | 61 | 54 |
| Yield on debt portfolio (6) | 11.9% | 12.1% | 12.5% | 13.0% | 13.2% |

(1) Expenses net of base management fee and incentive fee waivers were $71,456.
(2) Based on the weighted average shares outstanding for the respective years.
(3) The tax status of our distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP and is reported on Form 1099-DIV each calendar year.
(4) At fair value, excluding our SBA debentures.
(5) 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.
(6) Unaudited, at year end.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**FORWARD-LOOKING STATEMENTS**

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

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of investments that we expect to make;
- the impact of fluctuations in interest rates and foreign exchange rates on our business and our portfolio companies;
- our contractual arrangements and relationships with third parties;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- the ability of our prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our prospective portfolio companies;
- the impact of price and volume fluctuations in the stock market;
- the ability of our Investment Adviser to locate suitable investments for us and to monitor and administer our investments;
- the impact of future legislation and regulation on our business and our portfolio companies; and
- the impact of European sovereign debt, Brexit and other world economic and political issues.

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

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

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

You should understand that under Section 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the 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 senior secured debt, mezzanine debt and equity investments.

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured debt, mezzanine debt and equity investments by investing approximately $10 million to $50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term "middle-market" to refer to companies with annual revenues between $50 million and $1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies. Securities rated below investment grade are often referred to as "leveraged loans" or "high yield" securities or "junk bonds" and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

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

***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, supervises our activities, and the Investment Adviser manages our day-to-day activities.

***Revenues***

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

***Expenses***

Our primary operating expenses include the payment of a management fee 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 September 30, 2016, our portfolio totaled $1,153.7 million and consisted of $397.1 million of senior secured debt, $425.4 million of second lien secured debt, $177.6 million of subordinated debt and $153.6 million of preferred and common equity. Our debt portfolio consisted of 78% variable-rate investments (including 72% with a LIBOR or prime floor) and 22% fixed-rate investments. As of September 30, 2016, we had four companies on non-accrual, representing 5.3% and 2.8% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of $100.3 million as of September 30, 2016. Our overall portfolio consisted of 56 companies with an average investment size of $20.6 million, had a weighted average yield on interest bearing debt investments of 11.9% and was invested 35% in senior secured debt, 37% in second lien secured debt, 15% in subordinated debt and 13% in preferred and common equity.

As of September 30, 2015, our portfolio totaled $1,299.0 million and consisted of $399.2 million of senior secured debt, $612.5 million of second lien secured debt, $182.5 million of subordinated debt and $104.8 million of preferred and common equity. Our debt portfolio consisted of 71% variable-rate investments (including 65% with a LIBOR or prime floor) and 29% fixed-rate investments. As of September 30, 2015, we had four companies on non-accrual, representing 9.4% and 5.5% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of $125.2 million as of September 30, 2015. Our overall portfolio consisted of 61 companies with an average investment size of $21.3 million, had a weighted average yield on interest bearing debt investments of 12.1% and was invested 31% in senior secured debt, 47% in second lien secured debt, 14% in subordinated debt and 8% in preferred and common equity.

For the fiscal year ended September 30, 2016, we invested $330.6 million of investments in four new and 25 existing portfolio companies with a weighted average yield on debt investments of 11.9%. Sales and repayments of investments for the year ended September 30, 2016 totaled $439.7 million.

For the fiscal year ended September 30, 2015, we invested $461.3 million of investments in 11 new and 30 existing portfolio companies with a weighted average yield on debt investments of 12.1%. Sales and repayments of investments for the year ended September 30, 2015 totaled $390.5 million.

For the fiscal year ended September 30, 2014, we invested $795.1 million of investments in 21 new and 30 existing portfolio companies with a weighted average yield on debt investments of 12.4%. Sales and repayments of investments for the year ended September 30, 2014 totaled $625.6 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.

### *Valuation of Portfolio Investments*

We expect that there may not be readily available market values for many of our investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy 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 investments generally consist of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

(3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

(4) The audit committee of our board of directors reviews the preliminary valuations of 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 bid prices obtained from at least two brokers or dealers, if available, or otherwise by a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

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 Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

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

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our Notes. We elected to use the fair value option for the Credit Facility and our Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred zero, zero and $8.3 million relating to debt issuance costs during the years ended September 30, 2016, 2015 and 2014, respectively. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the fiscal years ended September 30, 2016, 2015 and 2014, our Credit Facility and our Notes had a net change in unrealized depreciation (appreciation) of $3.7 million, $1.7 million and $(3.0) million, respectively. As of September 30, 2016 and 2015, net unrealized depreciation on our Credit Facility and our Notes totaled $5.2 million and $1.5 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility and 2019 Notes in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the NYSE under the ticker "PNTA" and we use the closing price on the exchange to determine their fair value.

***Revenue Recognition***

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not 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.

***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 value of our portfolio investments, our Credit Facility and our Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

***Foreign Currency Translation***

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

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

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

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, 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 Interest or PIK***

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. In order for us to maintain our ability to be treated as a RIC for federal income tax purposes, 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 to our stockholders in respect of each calendar year of an amount generally at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of the sum of our net capital gain income (i.e., the excess, if any, of capital gains over capital 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 paid no federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may retain such net capital gains or investment company taxable income in the future, subject to maintaining our ability to be treated as a RIC for federal income tax purposes, to provide us with additional liquidity.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences 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.

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

**RESULTS OF OPERATIONS**

Set forth below are our results of operations for the fiscal years ended September 30, 2016, 2015 and 2014.

***Investment Income***

Investment income for the fiscal year ended September 30, 2016 was $142.1 million and was attributable to $59.9 million from senior secured debt, $60.5 million from second lien secured debt, $20.9 million from subordinated debt and $0.8 million from preferred and common equity. The decrease in investment income over the prior year was primarily due to a reduction of our portfolio at cost.

Investment income for the fiscal year ended September 30, 2015 was $161.6 million and was attributable to $54.3 million from senior secured debt, $71.1 million from second lien secured debt, $29.8 million from subordinated debt and $6.4 million from preferred and common equity. The increase in investment income over the prior year was primarily due to the growth of our portfolio at cost.

Investment income for the fiscal year ended September 30, 2014 was $147.9 million and was attributable to $43.0 million from senior secured debt, $55.2 million from second lien secured debt, $46.4 million from subordinated debt and $3.3 million from preferred and common equity.

***Expenses***

Net expenses for the fiscal year ended September 30, 2016 totaled $71.5 million. Base management fee for the same period totaled $20.9 million (after a base management fee waiver of $4.0 million), incentive fee totaled $13.5 million (after an incentive fee waiver of $2.5 million), debt related interest and expenses totaled $27.6 million, general and administrative expenses totaled $7.1 million and provision for taxes totaled $2.4 million. The decrease in expenses over the prior year was primarily due to the Management Fees waiver and a smaller portfolio size partially offset by higher taxes.

Expenses for the fiscal year ended September 30, 2015 totaled $79.4 million. Base management fee for the same period totaled $26.7 million, incentive fee totaled $20.6 million, debt related interest and expenses totaled $26.4 million and general and administrative expenses totaled $5.7 million. The increase in expenses over the prior year was primarily due to increased borrowing costs, base management fee and incentive fee as a result from the growth of our portfolio.

Expenses for the fiscal year ended September 30, 2014 totaled $76.6 million. Base management fee for the same period totaled $24.3 million, incentive fee totaled $17.8 million, debt related interest and expenses totaled $28.6 million (including $8.3 million associated with the 2019 Notes and expansion of our Credit Facility), general and administrative expenses totaled $5.8 million and taxes of $0.1 million.

***Net Investment Income***

Net investment income totaled $70.6 million or $0.99 per share, $82.3 million or $1.10 per share and $71.3 million or $1.06 per share for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. The decrease in net investment income per share for fiscal year ended September 30, 2016 compared to the prior year was primarily due to the repayments of higher yielding investments.

***Net Realized Gains or Losses***

Sales and repayments of investments for the fiscal years ended September 30, 2016, 2015 and 2014 totaled $439.7 million, $390.5 million and $625.6 million, respectively, and net realized (losses) gains totaled $(80.5) million, $30.1 million and $30.2 million, respectively. The increase in realized losses for fiscal year ended September 30, 2016 compared to the prior year was primarily due to certain portfolio companies sales or restructurings.

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

Net unrealized appreciation (depreciation) on investments totaled $24.9 million, $(124.3) million and $12.5 million for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. Net unrealized depreciation (appreciation) on our Credit Facility and our Notes totaled $3.7 million, $1.7 million and $(3.0) million for the same periods, respectively. The net change in unrealized appreciation (depreciation) on our investments for fiscal year ended September 30, 2016 compared to the prior year was driven primarily by changes in the capital market conditions, financial performance of certain portfolio companies, and the reversal of unrealized depreciation (appreciation) of investments sold or restructured. The change in unrealized (appreciation) depreciation on the Credit Facility and our Notes for fiscal year ended September 30, 2016 compared to the prior year was due to the fluctuating interest rate environment.

***Net Change in Net Assets Resulting From Operations***

Net change in net assets resulting from operations totaled $18.7 million or $0.26 per share, $(10.2) million or $(0.14) per share and $111.0 million or $1.66 per share for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. The increase in the net change in net assets from operations for fiscal year ended September 30, 2016 compared to the prior year was primarily due to the change in portfolio investment values offset by higher net investment income.

## LIQUIDITY AND CAPITAL RESOURCES

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

As of September 30, 2016, we had a $545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of September 30, 2016 and 2015, there was $50.3 million and $136.9 million (including a temporary draw of $30.0 million), respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate at the time of 2.76% and 3.07%, respectively, exclusive of the fee on undrawn commitments, as of September 30, 2016 and 2015. The annualized weighted average cost of debt for the years ended September 30, 2016, 2015 and 2014, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility and upfront fees on SBA debentures, was 4.35%, 4.54% and 3.85%, respectively. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. As of September 30, 2016 and 2015, we had $494.7 million and $408.1 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, see our Form 8-K filed on June 30, 2014 and the Credit Facility agreement filed as Exhibit 99.2 thereto and incorporated by reference herein. As of September 30, 2016, 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 1and 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. Please see our indenture agreement filed as Exhibit (d)(8) in our post-effective amendment filed on January 22, 2013, or the Base Indenture, and the supplemental indenture agreement filed as Exhibit (d)(11) to our post-effective amendment filed on September 23, 2014 for more information.

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

We may raise additional equity or debt capital through both registered offerings off our shelf registration statement and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA, among other sources. Any future additional debt capital we incur, to the extent it is available, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility, SBA debentures or our Notes. Furthermore, our Credit Facility availability depends on various covenants and restrictions. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate or strategic purposes such as our stock repurchase program.

On May 6, 2015, we announced a share repurchase plan which allowed us to repurchase up to $35.0 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 program expired on May 6, 2016. For the fiscal years ended September 30, 2016 and 2015, we repurchased 1.9 million and 2.1 million shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $12.2 and $17.9 million, respectively. For the fiscal year ended September 30, 2014, we did not have a repurchase plan in place.

For the fiscal years ended September 30, 2016 and 2015, we did not complete any equity offerings. This compares to the sale of 8.5 million shares of our common stock, resulting in net proceeds of $95.4 million for the fiscal year ended September 30, 2014. Any decision to sell shares below the then current NAV per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below NAV per share results in immediate dilution to our stockholders' interests in our common stock and a reduction in our NAV per share.

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC I with $75.0 million of equity capital and it had SBA debentures outstanding of $150.0 million as of September 30, 2016. We have funded SBIC II with $52.5 million of equity capital, and it had SBA debentures outstanding of $47.5 million and commitments from the SBA for another $27.5 million of debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of $150.0 million, which is up to twice its potential regulatory capital, and per recent regulatory changes, as part of a group of SBICs under common control may borrow a maximum of $350.0 million in the aggregate.

As of September 30, 2016 and 2015, our SBIC Funds had $225.0 million in debt commitments, of which $197.5 million and $150.0 million was drawn, respectively. As of September 30, 2016 and 2015, the unamortized fees on the SBA debentures was $4.3 million and $3.7 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), (2) | As of September 30, 2016 Principal Balance | As of September 30, 2015 Principal Balance |
|---|---|---|---|---|
| September 22, 2010 | September 1, 2020 | 3.50% | $ 500,000 | $ 500,000 |
| March 29, 2011 | March 1, 2021 | 4.46 | 44,500,000 | 44,500,000 |
| September 21, 2011 | September 1, 2021 | 3.38 | 105,000,000 | 105,000,000 |
| March 23, 2016 | March 1, 2026 | 2.86 | 22,500,000 | — |
| September 21, 2016 | September 1, 2026 | 2.41 | 25,000,000 | — |
| Weighted Average Rate / Total | | 3.44% | $ 197,500,000 | $ 150,000,000 |

(1) Excluding 3.43% of upfront fees.
(2) As of September 30, 2015, the fixed all-in coupon rate was 3.70%.

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 September 30, 2016, our SBIC Funds were in compliance with their regulatory requirements.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that our asset coverage ratio is met after such borrowing. As of September 30, 2016 and 2015, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. In 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage ratio requirement to exclude the SBA debentures from the calculation. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% which, while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

At September 30, 2016 and 2015, we had cash and cash equivalents of $75.6 million and $49.6 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities provided cash of $157.7 million for the fiscal year ended September 30, 2016, and our financing activities used cash proceeds of $132.7 million for the same period. Our operating activities provided cash primarily from sales and repayments on our investments and our financing activities used cash primarily for net repayments on our Credit Facility and our stock repurchase program.

Our operating activities provided cash of $3.0 million for the fiscal year ended September 30, 2015, and our financing activities used cash proceeds of $20.1 million for the same period. Our operating activities provided cash primarily from sales and repayments on our investments and our financing activities used cash primarily for our stock repurchase program and to repay certain amounts under our Credit Facility.

Our operating activities used cash of $172.5 million for the fiscal year ended September 30, 2014, and our financing activities provided cash proceeds of $180.9 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from the issuance of the 2019 Notes, our equity offering and net draws under the Credit Facility.

***Contractual Obligations***

A summary of our significant contractual payment obligations as of September 30, 2016, 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 | $ 50.3 | $ — | $ — | $ 50.3 | $ — |
| SBA debentures | 197.5 | — | — | 150.0 | 47.5 |
| 2019 Notes | 250.0 | — | — | 250.0 | — |
| 2025 Notes | 71.3 | — | — | — | 71.3 |
| Total debt outstanding (1) | 569.1 | — | — | 450.3 | 118.8 |
| Unfunded investments (2) | 3.1 | — | — | 2.0 | 1.1 |
| Total contractual obligations | $ 572.2 | $ — | $ — | $ 452.3 | $ 119.9 |

(1) The annualized weighted average cost of debt as of September 30, 2016, excluding debt issuance costs, was 4.20% 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 12 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 2016. PennantPark Investment Advisers serves as our Investment Adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements with us. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2016, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements, which are intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, 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 is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

***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 to stockholders out of the assets legally available for distribution of an amount at least equal to 90% of the sum of our 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 to our stockholders in respect of each calendar year of an amount generally at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of our capital gain net income (i.e., the excess, if any, of capital gains over capital 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 paid no federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may retain such net capital gains or investment company taxable income in the future, subject to maintaining our ability to be treated as a RIC for federal income tax purposes, to provide us with additional liquidity.

During the fiscal years ended September 30, 2016, 2015 and 2014, we declared distributions of $1.12 per share each year for total distributions of $79.8 million, $83.3 million and $76.9 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, common stockholders will be notified of the portion of those distributions deemed to be a return of capital. Tax characteristics of all distributions will be reported to stockholders subject to information reporting on Form 1099-DIV after the end of the calendar year and in our periodic reports filed with the SEC.

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

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

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

**STOCK REPURCHASE PROGRAM**

On May 6, 2015, we announced a share repurchase plan which allows us to repurchase up to $35.0 million of our outstanding common stock in the open market at prices below our net asset value as reported in our then most recently published consolidated financial statements. The program expired on May 6, 2016. During the year ended September 30, 2016, we repurchased 1.9 million shares of common stock, respectively, in open market transactions for an aggregate cost (including transaction costs) of $12.2 million. From May 6, 2015 through the program’s expiration, we purchased 4.0 million shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $30.1 million.

**Item 7A. Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of September 30, 2016, our debt portfolio consisted of 78% variable-rate investments (including 72% with a LIBOR or prime floor) and 22% 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 Statement of Assets and Liabilities was to remain constant, and no actions were taken to alter the interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

| Change In Interest Rates | Change In Interest Income, Net Of Interest Expense (in thousands) | Change In Interest Income, Net Of Interest Expense Per Share |
|---|---|---|
| Up 1% | $ 2,074 | $ 0.03 |
| Up 2% | $ 9,536 | $ 0.13 |
| Up 3% | $ 16,998 | $ 0.24 |
| Up 4% | $ 24,460 | $ 0.34 |

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

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

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

**Item 8. Consolidated Financial Statements and Supplementary Data**

**Management's Report on Internal Control Over Financial Reporting**

The management of PennantPark Investment Corporation (except where the context suggests otherwise, the terms "we," "us," "our" and "PennantPark Investment" refer to PennantPark Investment Corporation and its Subsidiaries) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f), and for performing an assessment of the effectiveness of internal control over financial reporting as of September 30, 2016. Our internal control system is a process designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

PennantPark Investment's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions recorded necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Our policies and procedures also provide reasonable assurance that receipts and expenditures are being made only in accordance with authorizations of management and the directors of PennantPark Investment, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of PennantPark Investment's internal control over financial reporting as of September 30, 2016. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 *Internal Control—Integrated Framework*. Based on the assessment management believes that, as of September 30, 2016, our internal control over financial reporting is effective based on those criteria.

PennantPark Investment's independent registered public accounting firm has issued an audit report on the effectiveness of our internal control over financial reporting as of September 30, 2016. This report appears on page 47.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
PennantPark Investment Corporation and its Subsidiaries:

We have audited the accompanying consolidated statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (collectively referred to as the "Company"), including the consolidated schedules of investments as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended September 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of investments owned as of September 30, 2016, by correspondence with the custodians and/or portfolio companies. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PennantPark Investment Corporation and its Subsidiaries as of September 30, 2016 and 2015, and the results of their operations, changes in net assets and their cash flows for each of the three years in the period then ended September 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PennantPark Investment Corporation and its Subsidiaries' internal control over financial reporting as of September 30, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, and our report dated November 21, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ RSM US LLP
New York, New York
November 21, 2016

**Report of Independent Registered Public Accounting Firm**
**On Internal Control Over Financial Reporting**

The Board of Directors and Stockholders
PennantPark Investment Corporation and its Subsidiaries:

We have audited PennantPark Investment Corporation and its Subsidiaries' (collectively referred to as the "Company") internal control over financial reporting as of September 30, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (*a*) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (*b*) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (*c*) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PennantPark Investment Corporation and its Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries, including the schedules of investments as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended September 30, 2016 and our report dated November 21, 2016 expressed an unqualified opinion on those financial statements.

/s/ RSM US LLP
New York, New York
November 21, 2016

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

| | September 30, 2016 | September 30, 2015 |
|---|---|---|
| **Assets** | | |
| Investments at fair value | | |
| Non-controlled, non-affiliated investments (cost—$805,189,545 and $1,138,155,969, respectively) | $ 813,467,491 | $ 1,096,719,079 |
| Non-controlled, affiliated investments (cost—$262,476,906 and $133,693,295, respectively) | 215,192,547 | 95,503,104 |
| Controlled, affiliated investments (cost—$186,290,695 and $152,387,898, respectively) | 125,019,637 | 106,825,650 |
| Total of investments (cost—$1,253,957,146 and $1,424,237,162, respectively) | 1,153,679,675 | 1,299,047,833 |
| Cash and cash equivalents (cost—$75,617,133 and $49,637,415, respectively) | 75,608,113 | 49,619,256 |
| Interest receivable | 7,032,858 | 7,590,197 |
| Prepaid expenses and other assets | 2,615,232 | 8,790,944 |
| **Total assets** | 1,238,935,878 | 1,365,048,230 |
| **Liabilities** | | |
| Distributions payable | 19,897,034 | 20,430,492 |
| Payable for investments purchased | — | 3,591,177 |
| Credit Facility payable (cost—$50,339,700 and $136,864,300, respectively) (See Notes 5 and 11) | 39,551,187 | 132,356,860 |
| 2019 Notes payable (par—$250,000,000) (See Notes 5 and 11) | 254,175,000 | 253,102,500 |
| SBA debentures payable (par—$197,500,000 and $150,000,000, respectively) (See Notes 5 and 11) | 193,244,534 | 146,269,957 |
| 2025 Notes payable (par—$71,250,000) (See Notes 5 and 11) | 72,618,000 | 71,136,000 |
| Base management fee payable, net (See Note 3) | 5,074,830 | 6,602,029 |
| Performance-based incentive fee payable, net (See Note 3) | 2,865,444 | 5,007,792 |
| Interest payable on debt | 7,520,113 | 7,638,514 |
| Accrued other expenses | 622,880 | 2,322,367 |
| **Total liabilities** | 595,569,022 | 648,457,688 |
| Commitments and contingencies (See Note 12) | | |
| **Net assets** | | |
| Common stock, 71,060,836 and 72,966,043 shares issued and outstanding, respectively. Par value $0.001 per share and 100,000,000 shares authorized. | 71,061 | 72,966 |
| Paid-in capital in excess of par value | 819,983,676 | 834,711,229 |
| Undistributed (distributions in excess of) net investment income | 3,119,380 | (13,424,886) |
| Accumulated net realized (loss) gain on investments | (84,771,820) | 18,919,305 |
| Net unrealized depreciation on investments | (100,280,954) | (125,207,012) |
| Net unrealized depreciation on debt | 5,245,513 | 1,518,940 |
| **Total net assets** | $ 643,366,856 | $ 716,590,542 |
| **Total liabilities and net assets** | $ 1,238,935,878 | $ 1,365,048,230 |
| **Net asset value per share** | $ 9.05 | $ 9.82 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended September 30, 2016 | 2015 | 2014 |
|---|---|---|---|
| **Investment income:** | | | |
| From non-controlled, non-affiliated investments: | | | |
| Interest | $ 104,508,016 | $ 130,647,588 | $ 124,850,558 |
| Other income | 10,945,240 | 9,644,816 | 9,692,254 |
| From non-controlled, affiliated investments: | | | |
| Interest | 13,055,367 | 11,694,525 | 5,656,300 |
| Other income | 80,521 | 175,937 | — |
| From controlled, affiliated investments: | | | |
| Interest | 13,481,683 | 5,366,425 | 7,278,060 |
| Other income | — | 4,100,000 | 459,166 |
| **Total investment income** | 142,070,827 | 161,629,291 | 147,936,338 |
| **Expenses:** | | | |
| Base management fee (See Note 3) | 24,852,898 | 26,695,653 | 24,291,420 |
| Performance-based incentive fee (See Note 3) | 16,018,790 | 20,564,559 | 17,832,129 |
| Interest and expenses on debt (See Note 11) | 27,601,242 | 26,355,081 | 20,260,652 |
| Administrative services expenses (See Note 3) | 3,566,667 | 2,686,765 | 2,953,423 |
| Other general and administrative expenses | 3,605,923 | 3,069,144 | 2,860,094 |
| **Expenses before Management Fees waiver, provision for taxes and debt issuance costs** | 75,645,520 | 79,371,202 | 68,197,718 |
| Management Fees waiver (See Note 3) | (6,539,475) | — | — |
| Provision for taxes | 2,350,000 | — | 72,603 |
| Debt issuance costs (See Note 5) | — | — | 8,337,500 |
| **Net expenses** | 71,456,045 | 79,371,202 | 76,607,821 |
| **Net investment income** | 70,614,782 | 82,258,089 | 71,328,517 |
| **Realized and unrealized (loss) gain on investments and debt:** | | | |
| Net realized (loss) gain on investments | (80,530,707) | 30,111,694 | 30,235,265 |
| Net change in unrealized appreciation (depreciation) on: | | | |
| Non-controlled, non-affiliated investments | 48,052,466 | (113,376,060) | 468,076 |
| Non-controlled and controlled, affiliated investments | (23,126,408) | (10,949,885) | 11,993,189 |
| Debt depreciation (appreciation) (See Notes 5 and 11) | 3,726,573 | 1,710,510 | (3,041,570) |
| **Net change in unrealized appreciation (depreciation) on investments and debt** | 28,652,631 | (122,615,435) | 9,419,695 |
| **Net realized and unrealized (loss) gain from investments and debt** | (51,878,076) | (92,503,741) | 39,654,960 |
| **Net increase (decrease) in net assets resulting from operations** | $ 18,736,706 | $ (10,245,652) | $ 110,983,477 |
| Net increase (decrease) in net assets resulting from operations per common share | $ 0.26 | $ (0.14) | $ 1.66 |
| Net investment income per common share | $ 0.99 | $ 1.10 | $ 1.06 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

| | Years Ended September 30, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| **Net increase (decrease) in net assets from operations:** | | | |
| Net investment income | $ 70,614,782 | $ 82,258,089 | $ 71,328,517 |
| Net realized (loss) gain on investments | (80,530,707) | 30,111,694 | 30,235,265 |
| Net change in unrealized appreciation (depreciation) on investments | 24,926,058 | (124,325,945) | 12,461,265 |
| Net change in debt depreciation (appreciation) | 3,726,573 | 1,710,510 | (3,041,570) |
| **Net increase (decrease) in net assets resulting from operations** | 18,736,706 | (10,245,652) | 110,983,477 |
| **Distributions to stockholders:** | | | |
| Distribution of net investment income | (58,068,894) | (83,275,238) | (76,937,761) |
| Distribution of realized gains | (21,711,007) | — | — |
| **Total distributions to stockholders** | (79,779,901) | (83,275,238) | (76,937,761) |
| **Capital transactions:** | | | |
| Public offerings | — | — | 98,855,000 |
| Offering costs | — | — | (3,465,650) |
| Repurchase of common stock | (12,180,491) | (17,898,517) | — |
| Reinvestment of distributions | — | — | 1,068,684 |
| **Net (decrease) increase in net assets resulting from capital transactions** | (12,180,491) | (17,898,517) | 96,458,034 |
| **Net (decrease) increase in net assets** | (73,223,686) | (111,419,407) | 130,503,750 |
| **Net assets:** | | | |
| Beginning of year | 716,590,542 | 828,009,949 | 697,506,199 |
| End of year | $ 643,366,856 | $ 716,590,542 | $ 828,009,949 |
| Undistributed (distributions in excess of) net investment income, end of year | $ 3,119,380 | $ (13,424,886) | $ (11,802,580) |
| **Capital share activity:** | | | |
| Shares of common stock (repurchased) / issued from public offerings | (1,905,207) | (2,126,868) | 8,500,000 |
| Shares issued from reinvestment of distributions | — | — | 93,584 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years Ended September 30, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| **Cash flows from operating activities:** | | | |
| Net increase (decrease) in net assets resulting from operations | $ 18,736,706 | $ (10,245,652) | $ 110,983,477 |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities: | | | |
| Net change in unrealized (appreciation) depreciation on investments | (24,926,058) | 124,325,945 | (12,461,265) |
| Net change in unrealized (depreciation) appreciation on debt | (3,726,573) | (1,710,510) | 3,041,570 |
| Net realized loss (gain) on investments | 80,530,707 | (30,111,694) | (30,235,265) |
| Net accretion of discount and amortization of premium | (5,251,804) | (6,341,502) | (8,027,104) |
| Purchase of investments | (330,552,035) | (461,293,170) | (795,089,483) |
| Payment-in-kind income | (15,123,817) | (13,869,582) | (10,961,812) |
| Proceeds from dispositions of investments | 439,738,846 | 390,474,733 | 625,551,026 |
| Decrease (increase) in interest receivable | 557,339 | 6,113,328 | (2,808,632) |
| Decrease (increase) in prepaid expenses and other assets | 6,175,712 | 474,481 | (7,498,949) |
| Decrease in payable for investments purchased | (3,591,177) | (841,323) | (48,112,204) |
| (Decrease) increase in interest payable on debt | (118,401) | 5,676,250 | 151,798 |
| Amortization of deferred financing costs | 626,452 | 554,756 | 514,542 |
| (Decrease) increase in base management fee payable, net | (1,527,199) | 216,926 | 965,546 |
| (Decrease) increase in performance-based incentive fee payable, net | (2,142,348) | 385,038 | 347,873 |
| (Decrease) increase in accrued other expenses | (1,699,487) | (791,316) | 1,103,877 |
| Net cash provided by (used in) operating activities | 157,706,863 | 3,016,708 | (172,535,005) |
| **Cash flows from financing activities:** | | | |
| Public offerings | — | — | 98,855,000 |
| Offering costs | — | — | (3,465,650) |
| Repurchase of common stock | (12,180,491) | (17,898,517) | — |
| Deferred financing costs | (1,151,875) | — | (750,000) |
| Distributions paid to stockholders | (80,313,359) | (83,870,760) | (73,462,877) |
| Borrowings under SBA debentures | 47,500,000 | — | — |
| Proceeds from 2019 and 2025 Notes issuances | — | — | 250,000,000 |
| Borrowings under Credit Facility | 413,664,923 | 644,000,000 | 1,186,753,100 |
| Repayments under Credit Facility | (500,189,523) | (562,362,000) | (1,277,026,800) |
| Net cash (used in) provided by financing activities | (132,670,325) | (20,131,277) | 180,902,773 |
| **Net increase (decrease) in cash and cash equivalents** | 25,036,538 | (17,114,569) | 8,367,768 |
| Effect of exchange rate changes on cash | 952,319 | 215,143 | (289,915) |
| **Cash and cash equivalents, beginning of year** | 49,619,256 | 66,518,682 | 58,440,829 |
| **Cash and cash equivalents, end of year** | $ 75,608,113 | $ 49,619,256 | $ 66,518,682 |
| **Supplemental disclosure of cash flow information:** | | | |
| Interest paid | $ 27,093,191 | $ 20,124,075 | $ 19,575,955 |
| Taxes paid | $ 2,549,392 | $ 61,748 | $ 8,278 |
| Distributions reinvested | $ — | $ — | $ 1,068,682 |
| Non-cash exchanges and conversions | $ 62,949,729 | $ 39,765,183 | $ 59,126,053 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF INVESTMENTS**
**SEPTEMBER 30, 2016**

| Issuer Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair Value (3) |
|---|---|---|---|---|---|---|---|
| **Investments in Non-Controlled, Non-Affiliated Portfolio Companies—126.4% (1), (2)** | | | | | | | |
| **First Lien Secured Debt—38.7%** | | | | | | | |
| AP Gaming I, LLC | 12/21/2020 | Hotels, Motels, Inns and Gaming | 9.25% | L+825 | 23,333,361 | $ 23,071,460 | $ 22,210,559 |
| Broder Bros., Co., Tranche A | 06/03/2021 | Consumer Products | 7.00% | L+575 | 9,150,000 | 8,989,610 | 9,085,577 |
| Broder Bros., Co., Tranche B | 06/03/2021 | Consumer Products | 13.50% | L+1,225 | 9,225,000 | 9,058,699 | 9,160,048 |
| Hollander Sleep Products, LLC | 10/21/2020 | Consumer Products | 9.00% | L+800 | 4,372,074 | 4,323,938 | 4,284,632 |
| Interior Specialists, Inc. | 06/30/2020 | Building Materials | 9.00% | L+800 | 24,985,195 | 24,786,989 | 24,985,195 |
| K2 Pure Solutions NoCal, L.P. | 02/19/2021 | Chemicals, Plastics and Rubber | 10.00% | L+900 | 14,522,529 | 14,273,869 | 14,244,486 |
| LSF9 Atlantis Holdings, LLC | 01/15/2021 | Retail | 10.00% | L+900 | 38,391,045 | 37,888,445 | 38,391,045 |
| Prince Mineral Holding Corp. (5) | 12/16/2019 | Mining, Steel, Iron and Non-Precious Metals | 11.50% | — | 14,250,000 | 14,156,176 | 13,359,375 |
| Robertshaw US Holding Corp. | 06/18/2019 | Electronics | 8.50% | L+700 | 15,948,113 | 15,875,684 | 15,970,121 |
| Sotera Defense Solutions, Inc. | 04/21/2017 | Aerospace and Defense | 9.00% | L+750 | 18,306,549 | 18,075,370 | 18,215,016 |
| Triad Manufacturing, Inc. | 12/28/2020 | Manufacturing / Basic Industries | 11.27% | L+1,075(7) | 28,859,421 | 28,349,720 | 28,859,421 |
| Trust Inns Limited (9), (11), (12) | 02/12/2020 | Buildings and Real Estate | 10.88% | L+1,050(7) | 22,512,751 | 35,990,065 | 28,703,752 |
| US Med Acquisition, Inc. | 08/13/2021 | Healthcare, Education and Childcare | 10.00% | L+900 | 8,651,563 | 8,651,563 | 8,651,563 |
| U.S. Well Services, LLC | 05/02/2019 | Oil and Gas | 14.02% (PIK 14.02%) | L+1,350(7) | 14,988,321 | 14,796,715 | 12,912,527 |
| **Total First Lien Secured Debt** | | | | | | 258,288,303 | 249,033,317 |
| **Second Lien Secured Debt—61.0%** | | | | | | | |
| American Gilsonite Company (5) | 09/01/2017 | Diversified Natural Resources, Precious Metals and Minerals | —(6) | — | 25,400,000 | 25,400,000 | 17,780,000 |
| Balboa Capital Corporation (12) | 03/04/2022 | Financial Services | 13.75% | — | 28,500,000 | 28,253,554 | 28,500,000 |
| Bennu Oil & Gas, LLC | 11/01/2018 | Oil and Gas | —(6) | — | 26,979,281 | 25,422,260 | 8,633,370 |
| Howard Berger Co. LLC | 09/30/2020 | Distribution | 11.00% | L+1,000 | 41,250,000 | 39,419,316 | 37,125,000 |
| Intermediate Transportation 100, LLC (5) | 03/01/2017 | Cargo Transport | —(6) | — | 4,887,760 | 3,739,797 | 2,932,656 |
| Jacobs Entertainment, Inc. | 10/29/2019 | Hotels, Motels, Inns and Gaming | 13.00% | L+1,175 | 51,775,000 | 51,362,786 | 51,775,000 |
| MailSouth, Inc. | 10/22/2021 | Printing and Publishing | 11.50% | L+1,050 | 26,425,000 | 25,926,258 | 26,425,000 |
| Novitex Acquisition, LLC | 07/07/2021 | Business Services | 12.25% | L+1,100 | 41,250,000 | 40,929,816 | 41,250,000 |
| Parq Holdings Limited Partnership (9), (12) | 12/17/2021 | Hotels, Motels, Inns and Gaming | 13.00% | L+1,200 | 75,000,000 | 75,000,000 | 76,229,058 |
| Penton Media, Inc. | 10/02/2020 | Media | 9.00% | L+775 | 18,270,159 | 18,101,798 | 18,201,646 |
| Pre-Paid Legal Services, Inc. | 07/01/2020 | Personal, Food and Miscellaneous Services | 10.25% | L+900 | 56,750,000 | 56,202,295 | 56,087,727 |
| Prime Security Services Borrower, LLC | 07/01/2022 | Personal, Food and Miscellaneous Services | 9.75% | L+875 | 14,798,077 | 14,613,655 | 15,029,371 |
| VT Buyer Acquisition Corp. | 01/30/2023 | Business Services | 10.75% | L+975 | 12,862,500 | 12,441,130 | 12,862,500 |
| **Total Second Lien Secured Debt** | | | | | | 416,812,665 | 392,831,328 |
| **Subordinated Debt/Corporate Notes—15.9%** | | | | | | | |
| Alegeus Technologies, LLC | 02/15/2019 | Financial Services | 13.00% | L+1,200 | 8,930,000 | 8,844,669 | 8,831,201 |
| Cascade Environmental LLC | 08/20/2021 | Environmental Services | 12.00% | — | 32,675,553 | 32,055,101 | 32,675,553 |
| Credit Infonet, Inc. | 10/26/2018 | Personal, Food and Miscellaneous Services | 13.00% (PIK 1.75%) | — | 11,035,083 | 10,937,329 | 10,538,501 |
| Goldsun Trading Limited (9), (11), (12) | 02/19/2018 | Healthcare, Education and Childcare | 14.50% (PIK 6.00%) | L+1,000 | 8,375,600 | 12,306,414 | 10,855,976 |
| Randall-Reilly, LLC | 04/15/2020 | Other Media | 12.00% | — | 26,500,000 | 26,617,239 | 26,309,750 |
| Roto Holdings, Inc. | 05/13/2021 | Manufacturing / Basic Industries | 11.00% | — | 13,300,000 | 13,090,281 | 13,300,000 |
| **Total Subordinated Debt/Corporate Notes** | | | | | | 103,851,033 | 102,510,981 |
| **Preferred Equity/Partnership Interests—0.8% (6)** | | | | | | | |
| AH Holdings, Inc. | — | Healthcare, Education and Childcare | 6.00% | — | 211 | 500,000 | 128,457 |
| Alegeus Technologies Holdings Corp. | — | Financial Services | — | — | 949 | 949,050 | 1,081,633 |
| Convergint Technologies Holdings, LLC | — | Electronics | 8.00% | — | 2,375 | 2,088,121 | 2,396,892 |
| HW Holdco, LLC | — | Other Media | 8.00% | — | 3,591 | — | 32,476 |
| Roto Holdings, Inc. | — | Manufacturing / Basic Industries | — | — | 1,197 | 1,197,000 | 1,404,944 |
| **Total Preferred Equity/Partnership Interests** | | | | | | 4,734,171 | 5,044,402 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)**
**SEPTEMBER 30, 2016**

| Issuer Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair Value (3) |
|---|---|---|---|---|---|---|---|
| **Common Equity/Partnership Interests/Warrants—10.0% (6)** | | | | | | | |
| AH Holdings, Inc. (Warrants) | 03/23/2021 | Healthcare, Education and Childcare | — | — | 753 | $ — | $ — |
| Alegeus Technologies Holdings Corp. | — | Financial Services | — | — | 1 | 950 | 1,083 |
| ASP LCG Holdings, Inc. (Warrants) | 05/05/2026 | Education | — | — | 933 | 586,975 | 1,192,535 |
| Autumn Games, LLC | — | Broadcasting and Entertainment | — | — | 1,333,330 | 3,000,000 | — |
| Cardinal Logistics Holdings LLC (10) (Intermediate Transportation 100, LLC) | — | Cargo Transport | — | — | 137,923 | 2,111,588 | — |
| Cascade Environmental LLC (10) | — | Environmental Services | — | — | 23,600 | 2,360,000 | 5,194,738 |
| CI (Galls) Prime Investment Holdings, LLC (10) | — | Distribution | — | — | 1,745,639 | 1,745,639 | 3,637,907 |
| Convergint Technologies Holdings, LLC | — | Electronics | — | — | 2,375 | — | 2,671,422 |
| e.l.f. Beauty, Inc. | — | Consumer Products | — | — | 938,399 | 2,513,193 | 25,141,220 |
| Faraday Holdings, LLC (Interior Specialists, Inc.) | — | Building Materials | — | — | 4,277 | 217,635 | 354,555 |
| HW Holdco, LLC | — | Other Media | — | — | 388,378 | — | 3,512,420 |
| Kadmon Holdings, Inc. | — | Healthcare, Education and Childcare | — | — | 252,014 | 2,265,639 | 1,849,783 |
| LaMi Acquisition, LLC (10) | — | Distribution | — | — | 19 | 493,280 | 526,382 |
| Lariat ecoserv Co-Invest Holdings, LLC (10) | — | Environmental Services | — | — | 1,000,000 | 1,000,000 | — |
| MidOcean PPL Holdings, Corp. (Pre-Paid Legal Services, Inc.) | — | Personal, Food and Miscellaneous Services | — | — | 3,000 | 3,000,000 | 5,959,292 |
| Patriot National, Inc. | — | Insurance | — | — | 100,885 | 238,038 | 908,974 |
| Power Products Holdings, LLC, Class A Units (10) | — | Electronics | — | — | 1,350,000 | 901,263 | 1,223,409 |
| Power Products Holdings, LLC, Class B Units (10) | — | Electronics | — | — | 150,000 | 142,300 | 2,800,010 |
| Roto Holdings, Inc. | — | Manufacturing / Basic Industries | — | — | 1,330 | 133,000 | 1,022,594 |
| Vestcom Parent Holdings, Inc. | — | Printing and Publishing | — | — | 211,797 | 793,873 | 8,051,139 |
| **Total Common Equity/Partnership Interests/Warrants** | | | | | | 21,503,373 | 64,047,463 |
| **Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies** | | | | | | 805,189,545 | 813,467,491 |
| **Investments in Non-Controlled, Affiliated Portfolio Companies—33.5% (1), (2)** | | | | | | | |
| **First Lien Secured Debt—8.3%** | | | | | | | |
| Corfin Industries LLC | 11/25/2020 | Aerospace and Defense | 10.75% | L+975 | 23,522,250 | 23,114,058 | 23,522,250 |
| Corfin Industries LLC (Revolver) (8) | 11/25/2020 | Aerospace and Defense | — | — | 1,942,623 | — | — |
| PAS Technologies, Inc. | 03/21/2017 | Aerospace and Defense | 6.01% (PIK 1.00%) | L+500 | 4,434,295 | 3,357,949 | 3,946,523 |
| TRAK Acquisition Corp. | 04/30/2018 | Business Services | 12.00% | L+1,050 | 22,764,911 | 22,613,930 | 22,764,911 |
| TRAK Acquisition Corp. (Revolver) | 11/22/2016 | Business Services | 12.00% | L+1,050 | 3,000,000 | 3,000,000 | 3,000,000 |
| **Total First Lien Secured Debt** | | | | | | 52,085,937 | 53,233,684 |
| **Second Lien Secured Debt—3.9%** | | | | | | | |
| Affinion Group, Inc. | 10/31/2018 | Consumer Products | 8.50% | L+700 | 18,000,000 | 16,960,967 | 15,825,060 |
| EnviroSolutions Real Property Holdings, Inc. | 12/26/2017 | Environmental Services | 9.00% | L+800 | 9,409,740 | 9,307,548 | 9,409,740 |
| **Total Second Lien Secured Debt** | | | | | | 26,268,515 | 25,234,800 |
| **Subordinated Debt/Corporate Notes—11.7%** | | | | | | | |
| Affinion International Holdings Limited (5), (9), (12) | 07/30/2018 | Consumer Products | 7.50% (PIK 4.00%) | — | 9,858,025 | 8,946,674 | 8,995,448 |
| DirectBuy Holdings, Inc. | 11/05/2019 | Consumer Products | —(6) | — | 14,735,238 | 12,340,534 | 2,799,695 |
| ETX Energy, LLC (f/k/a New Gulf Resources, LLC), Convertible Note (5) | 05/03/2021 | Oil and Gas | 12.50% (PIK 12.50%) | — | 25,297,664 | 36,473,119 | 35,416,730 |
| Service Champ, Inc. | 10/02/2017 | Auto Sector | 12.50% | — | 28,000,000 | 27,841,741 | 27,908,663 |
| **Total Subordinated Debt/Corporate Notes** | | | | | | 85,602,068 | 75,120,536 |
| **Preferred Equity—0.7% (6)** | | | | | | | |
| PAS International Holdings, Inc. | — | Aerospace and Defense | — | — | 53,071 | 20,059,340 | 4,287,107 |
| **Common Equity/Partnership Interests/Warrants—8.9% (6)** | | | | | | | |
| Affinion Group Holdings, Inc. | — | Consumer Products | — | — | 859,496 | 30,503,493 | 32,115,042 |
| Affinion Group Holdings, Inc., Series C and Series D | — | Consumer Products | — | — | 37,181 | 10,265,972 | 173,844 |
| Corfin InvestCo, L.P. | — | Aerospace and Defense | — | — | 11,250 | 1,125,000 | 2,330,813 |
| Corfin InvestCo, L.P. (8) | — | Aerospace and Defense | — | — | 11,250 | — | — |
| DirectBuy Holdings, Inc. | — | Consumer Products | — | — | 104,719 | 21,492,822 | — |
| DirectBuy Holdings, Inc. (Warrants) | 11/05/2022 | Consumer Products | — | — | 15,486 | — | — |
| EnviroSolutions Holdings, Inc. | — | Environmental Services | — | — | 143,668 | 11,960,702 | 13,112,260 |
| ETX Energy, LLC (f/k/a New Gulf Resources, LLC) (10) | — | Oil and Gas | — | — | 113,610 | — | — |
| ETX Energy Management Company, LLC (f/k/a NGR Management Company LLC) (10) | — | Oil and Gas | — | — | 119,603 | — | — |
| New Service Champ Holdings, Inc. | — | Auto Sector | — | — | 16,800 | 2,721,600 | 6,989,362 |
| PAS International Holdings, Inc. | — | Aerospace and Defense | — | — | 53,071 | 202,620 | — |
| TRAK Acquisition Corp. | — | Business Services | — | — | 491,755 | 188,837 | 2,595,099 |
| **Total Common Equity/Partnership Interests/Warrants** | | | | | | 78,461,046 | 57,316,420 |
| **Total Investments in Non-Controlled, Affiliated Portfolio Companies** | | | | | | 262,476,906 | 215,192,547 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)**
**SEPTEMBER 30, 2016**

| Issuer Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair Value (3) |
|---|---|---|---|---|---|---|---|
| **Investments in Controlled, Affiliated Portfolio Companies—19.4% (1), (2)** | | | | | | | |
| **First Lien Secured Debt—14.7%** | | | | | | | |
| RAM Energy LLC | 07/18/2019 | Energy and Utilities | 10.00% (PIK 10.00%) | L+800 | 84,606,067 | $ 83,653,689 | $ 68,319,399 |
| Superior Digital Displays, LLC | 12/31/2018 | Media | 14.00% (PIK 14.00%) | L+1,300 | 26,516,321 | 24,845,647 | 26,516,321 |
| **Total First Lien Secured Debt** | | | | | | 108,499,336 | 94,835,720 |
| **Second Lien Secured Debt—1.2%** | | | | | | | |
| Superior Digital Displays, LLC | 07/01/2019 | Media | 16.00% (PIK 16.00%) | L+1,500 | 8,675,815 | 8,675,815 | 7,346,315 |
| **Preferred Equity—3.1% (6)** | | | | | | | |
| MidOcean JF Holdings Corp. | — | Distribution | — | — | 143,183 | 14,318,325 | 20,151,529 |
| Superior Digital Displays Holdings, Inc. | — | Media | 15.00% | — | 103,916 | 7,000,000 | — |
| **Total Preferred Equity** | | | | | | 21,318,325 | 20,151,529 |
| **Common Equity—0.4% (6)** | | | | | | | |
| MidOcean JF Holdings Corp. | — | Distribution | — | — | 65,933 | 24,761,831 | 2,686,073 |
| RAM Energy Holdings LLC | — | Energy and Utilities | — | — | 23,141 | 20,824,388 | — |
| Superior Digital Displays Holdings, Inc. | — | Media | — | — | 11,100 | 2,211,000 | — |
| **Total Common Equity** | | | | | | 47,797,219 | 2,686,073 |
| **Total Investments in Controlled, Affiliated Portfolio Companies** | | | | | | 186,290,695 | 125,019,637 |
| **Total Investments—179.3%** | | | | | | 1,253,957,146 | 1,153,679,675 |
| **Cash and Cash Equivalents—11.8%** | | | | | | | |
| BlackRock Liquidity Funds, Temp Cash, Institutional Shares | | | | | | 64,897,736 | 64,897,736 |
| BNY Mellon Cash Reserve and Cash | | | | | | 10,719,397 | 10,710,377 |
| **Total Cash and Cash Equivalents** | | | | | | 75,617,133 | 75,608,113 |
| **Total Investments and Cash Equivalents—191.1%** | | | | | | $1,329,574,279 | $ 1,229,287,788 |
| **Liabilities in Excess of Other Assets—(91.1%)** | | | | | | | (585,920,932) |
| **Net Assets—100.0%** | | | | | | | $ 643,366,856 |

(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." All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.

(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

(6) Non-income producing securities.

(7) Coupon is not subject to a LIBOR or Prime rate floor.

(8) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.

(9) Non-U.S. company or principal place of business outside the U.S.

(10) Investment is held through a consolidated taxable subsidiary (See Note 1 to the financial statements).

(11) Par amount is denominated in British Pounds.

(12) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF INVESTMENTS**
**SEPTEMBER 30, 2015**

| Issuer Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair Value (3) |
|---|---|---|---|---|---|---|---|
| **Investments in Non-Controlled, Non-Affiliated Portfolio Companies—153.0% (1), (2)** | | | | | | | |
| **First Lien Secured Debt—39.1%** | | | | | | | |
| Aircell Business Aviation Services LLC | 03/21/2018 | Communications | 11.25% | L+975 | 22,689,469 | $ 22,109,951 | $ 23,483,601 |
| AKA Diversified Holdings, Inc. | 04/02/2018 | Retail | 11.97% | L+1,175(8) | 44,459,443 | 43,751,988 | 45,126,826 |
| AKA Diversified Holdings, Inc. (Revolver) (9) | 04/02/2018 | Retail | — | — | 4,371,469 | — | 65,620 |
| AP Gaming I, LLC | 12/21/2020 | Hotels, Motels, Inns and Gaming | 9.25% | L+825 | 23,573,292 | 23,268,725 | 23,180,325 |
| Hollander Sleep Products, LLC | 10/21/2020 | Consumer Products | 9.00% | L+800 | 4,477,500 | 4,418,746 | 4,477,500 |
| Interior Specialists, Inc. | 06/30/2020 | Building Materials | 9.00% | L+800 | 25,500,000 | 25,254,194 | 25,500,000 |
| K2 Pure Solutions NoCal, L.P. | 08/19/2019 | Chemicals, Plastics and Rubber | 11.00% | L+1,000 | 21,644,154 | 21,333,439 | 20,091,220 |
| Linc USA GP and Linc Energy Finance (USA), Inc. (5) | 10/31/2017 | Oil and Gas | 9.63% | — | 5,626,850 | 5,626,850 | 5,007,897 |
| Prince Mineral Holding Corp. (5) | 12/16/2019 | Mining, Steel, Iron and Non-Precious Metals | 11.50% | — | 14,250,000 | 14,137,010 | 11,970,000 |
| Robertshaw US Holding Corp. | 06/18/2019 | Electronics | 9.00% | L+750 | 13,435,343 | 13,339,249 | 13,407,176 |
| Sotera Defense Solutions, Inc. | 04/21/2017 | Aerospace and Defense | 9.00% | L+750 | 19,704,329 | 19,043,541 | 17,733,896 |
| Sunborn International (UK) Limited (10), (12), (13) | 09/28/2018 | Hotels, Motels, Inns and Gaming | 13.00% (PIK 0.50%) | L+1,250(8) | 19,947,600 | 30,053,647 | 29,873,876 |
| Trust Inns Limited (10), (12), (13) | 02/12/2020 | Buildings and Real Estate | 11.08% | L+1,050(8) | 24,386,987 | 38,764,474 | 36,411,706 |
| US Med Acquisition, Inc. | 08/13/2021 | Healthcare, Education and Childcare | 10.00% | L+900 | 8,739,063 | 8,739,063 | 8,739,062 |
| U.S. Well Services, LLC | 05/02/2019 | Oil and Gas | 12.00% | L+1,150 | 15,297,762 | 15,036,838 | 15,308,835 |
| **Total First Lien Secured Debt** | | | | | | 284,877,715 | 280,377,540 |
| **Second Lien Secured Debt—83.7%** | | | | | | | |
| Affinion Group, Inc. | 10/31/2018 | Consumer Products | 8.50% | L+700 | 18,000,000 | 16,544,788 | 16,076,340 |
| American Gilsonite Company (5) | 09/01/2017 | Diversified Natural Resources, Precious Metals and Minerals | 11.50% | — | 25,400,000 | 25,400,000 | 24,130,000 |
| Ascensus, Inc. | 12/02/2020 | Financial Services | 9.00% | L+800 | 15,500,000 | 15,322,421 | 15,441,875 |
| Balboa Capital Corporation (13) | 03/04/2022 | Financial Services | 13.00% | — | 19,000,000 | 18,721,641 | 18,810,000 |
| Bennu Oil & Gas, LLC | 11/01/2018 | Oil and Gas | 12.25% (PIK 2.50%) | L+1,100 | 26,484,773 | 25,150,663 | 20,393,275 |
| Foundation Building Materials, LLC | 04/30/2019 | Building Materials | 13.25% | P+1,000 | 45,000,000 | 44,625,152 | 45,900,000 |
| Foundation Building Materials, LLC | 04/30/2019 | Building Materials | 14.25% (PIK 1.00%) | P+1,100 | 33,109,864 | 32,588,028 | 33,772,061 |
| Howard Berger Co. LLC | 09/30/2020 | Distribution | 11.00% | L+1,000 | 41,250,000 | 39,088,044 | 40,012,500 |
| Intermediate Transportation 100, LLC (5) | 03/01/2017 | Cargo Transport | —(6) | — | 4,391,420 | 4,391,422 | 1,229,598 |
| J.A. Cosmetics Holdings, Inc. | 07/31/2019 | Consumer Products | 11.00% | L+1,000 | 34,000,000 | 33,476,169 | 34,340,000 |
| Jacobs Entertainment, Inc. | 10/29/2019 | Hotels, Motels, Inns and Gaming | 13.00% | L+1,175 | 48,765,129 | 48,307,757 | 48,765,129 |
| Language Line, LLC | 07/07/2022 | Personal, Food and Miscellaneous Services | 10.75% | L+975 | 40,312,500 | 39,711,804 | 40,211,719 |
| Linc USA GP and Linc Energy Finance (USA), Inc. (5) | 10/31/2017 | Oil and Gas | 12.50%(7) | — | 11,875,000 | 11,667,848 | 9,143,751 |
| New Gulf Resources, LLC (5) | 05/15/2019 | Oil and Gas | —(6) | — | 45,000,000 | 44,698,345 | 31,500,000 |
| Novitex Acquisition, LLC | 07/07/2021 | Business Services | 11.75% | L+1,050 | 41,250,000 | 40,883,259 | 40,425,000 |
| Parq Holdings Limited Partnership (10), (13) | 12/17/2021 | Hotels, Motels, Inns and Gaming | 13.00% | L+1,200 | 75,000,000 | 75,000,000 | 75,586,475 |
| Penton Media, Inc. | 10/02/2020 | Media | 9.00% | L+775 | 19,698,091 | 19,478,649 | 19,615,950 |
| Pre-Paid Legal Services, Inc. | 07/01/2020 | Personal, Food and Miscellaneous Services | 10.25% | L+900 | 56,750,000 | 56,098,358 | 56,608,125 |
| Prime Security Services Borrower, LLC | 07/01/2022 | Personal, Food and Miscellaneous Services | 9.75% | L+875 | 28,500,000 | 28,082,664 | 28,001,250 |
| **Total Second Lien Secured Debt** | | | | | | 619,237,012 | 599,963,048 |
| **Subordinated Debt/Corporate Notes—20.7%** | | | | | | | |
| Affinion Group Holdings, Inc. | 09/14/2018 | Consumer Products | —(6) | — | 41,389,881 | 37,715,391 | 15,728,155 |
| Affinion Investments LLC | 08/15/2018 | Consumer Products | —(6) | — | 21,625,412 | 18,687,177 | 14,489,026 |
| Alegeus Technologies, LLC | 02/15/2019 | Financial Services | 12.00% | — | 8,930,000 | 8,819,557 | 8,872,566 |
| Cascade LP Holdings, LLC | 08/20/2021 | Environmental Services | 12.00% | — | 27,475,553 | 26,893,410 | 26,926,042 |
| Cascade LP Holdings, LLC (9) | 02/20/2017 | Environmental Services | — | — | 11,124,447 | — | 27,811 |
| Credit Infonet, Inc. | 10/26/2018 | Personal, Food and Miscellaneous Services | 13.00% (PIK 1.75%) | — | 10,800,349 | 10,664,093 | 10,628,485 |
| MSPark, Inc. | 06/15/2017 | Printing and Publishing | 14.50%(7) | — | 15,000,000 | 14,836,009 | 15,000,000 |
| New Gulf Resources, LLC (5) | 11/15/2019 | Oil and Gas | —(6) | — | 15,204,289 | 14,829,719 | 1,520,429 |
| Randall-Reilly, LLC | 04/15/2019 | Other Media | 12.50%(7) | — | 42,275,000 | 41,618,180 | 41,892,583 |
| Roto Holdings, Inc. | 05/13/2021 | Manufacturing / Basic Industries | 11.00% | — | 13,300,000 | 13,057,260 | 13,167,000 |
| **Total Subordinated Debt/Corporate Notes** | | | | | | 187,120,796 | 148,252,097 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)**
**SEPTEMBER 30, 2015**

| Issuer Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair Value (3) |
|---|---|---|---|---|---|---|---|
| **Preferred Equity/Partnership Interests—1.8% (6)** | | | | | | | |
| AH Holdings, Inc. | — | Healthcare, Education and Childcare | 6.00% | — | 211 | $ 500,000 | $ 355,508 |
| Alegeus Technologies Holdings Corp. | — | Financial Services | — | — | 949 | 949,050 | 995,487 |
| Convergint Technologies Holdings, LLC | — | Electronics | 8.00% | — | 2,375 | 2,088,121 | 2,222,223 |
| HW Holdco, LLC | — | Other Media | 8.00% | — | 3,591 | — | 24,177 |
| J.A. Cosmetics US, Inc. | — | Consumer Products | 8.00% | — | 3,397 | 3,397,484 | 3,871,624 |
| Roto Holdings, Inc. | — | Manufacturing / Basic Industries | — | — | 1,197 | 1,197,000 | 1,295,710 |
| vRide Holdings, Inc. (f/k/a Ride Holdings, Inc.) | — | Personal Transportation | 8.00% | — | 1,966,667 | 2,102,669 | 4,275,107 |
| **Total Preferred Equity/Partnership Interests** | | | | | | 10,234,324 | 13,039,836 |
| **Common Equity/Partnership Interests/Warrants—7.7% (6)** | | | | | | | |
| A2Z Wireless Holdings, Inc. | — | Retail | — | — | 1,736 | 445,500 | 2,528,247 |
| Affinion Group Holdings, Inc., Series A (Warrants) | 12/12/2023 | Consumer Products | — | — | 4,798,624 | 10,265,972 | 2,519,278 |
| Affinion Group Holdings, Inc., Series B (Warrants) | 12/12/2023 | Consumer Products | — | — | 9,822,196 | — | 196,444 |
| AH Holdings, Inc. (Warrants) | 03/23/2021 | Healthcare, Education and Childcare | — | — | 753 | — | — |
| Alegeus Technologies Holdings Corp. | — | Financial Services | — | — | 1 | 950 | 996 |
| ASP LCG Holdings, Inc. (Warrants) | 05/05/2026 | Education | — | — | 933 | 586,975 | 820,067 |
| Autumn Games, LLC | — | Broadcasting and Entertainment | — | — | 1,333,330 | 3,000,000 | — |
| Cardinal Logistics Holdings LLC (11) (Intermediate Transportation 100, LLC) | — | Cargo Transport | — | — | 137,923 | 2,111,588 | — |
| Cascade LP Holdings, LLC (11) | — | Environmental Services | — | — | 23,600 | 2,360,000 | 3,473,308 |
| CI (FBM) Holdings, LLC (11) (Foundation Building Materials, LLC) | — | Building Materials | — | — | 207,242 | 2,250,000 | 8,223,485 |
| CI (FBM) Holdings, LLC (9), (11) (Foundation Building Materials, LLC) | — | Building Materials | — | — | 103,621 | — | — |
| CI (Galls) Prime Investment Holdings, LLC (11) | — | Distribution | — | — | 1,745,639 | 1,745,639 | 2,040,629 |
| Convergint Technologies Holdings, LLC | — | Electronics | — | — | 2,375 | — | 999,889 |
| Faraday Holdings, LLC (Interior Specialists, Inc.) | — | Building Materials | — | — | 3,520 | 171,601 | 196,748 |
| HW Holdco, LLC | — | Other Media | — | — | 388,378 | — | 2,500,113 |
| J.A. Cosmetics US, Inc. | — | Consumer Products | — | — | 252 | 2,516 | 1,833,357 |
| Kadmon Holdings, LLC, Class A | — | Healthcare, Education and Childcare | — | — | 1,079,920 | 1,236,832 | 6,701,684 |
| Kadmon Holdings, LLC, Class D | — | Healthcare, Education and Childcare | — | — | 1,079,920 | 1,028,807 | 1,028,807 |
| LaMi Acquisition, LLC (11) | — | Distribution | — | — | 16 | 383,447 | 383,447 |
| Lariat ecoserv Co-Invest Holdings, LLC (11) | — | Environmental Services | — | — | 1,000,000 | 1,000,000 | 761,955 |
| Magnum Hunter Resources Corporation (Warrants) (13) | 04/16/2016 | Oil and Gas | — | — | 122,192 | 182,498 | — |
| MidOcean PPL Holdings, Corp. (Pre-Paid Legal Services, Inc.) | — | Personal, Food and Miscellaneous Services | — | — | 3,000 | 3,000,000 | 4,813,759 |
| New Gulf Resources, LLC (Warrants) (11) | 05/09/2024 | Oil and Gas | — | — | 13,500 | 495,000 | — |
| Patriot National, Inc. (Warrants) | 11/27/2023 | Insurance | — | — | 123,129 | 238,049 | 1,620,378 |
| Power Products Holdings, LLC, Class A Units (11) | — | Electronics | — | — | 1,350,000 | 901,263 | 1,141,900 |
| Power Products Holdings, LLC, Class B Units (11) | — | Electronics | — | — | 150,000 | 142,300 | 1,351,202 |
| Ride Group Parent, Inc. | — | Personal Transportation | — | — | 1,870,331 | 148,998 | 148,998 |
| Roto Holdings, Inc. | — | Manufacturing / Basic Industries | — | — | 1,330 | 133,000 | 612,550 |
| vRide Holdings, Inc. (f/k/a Ride Holdings, Inc.) | — | Personal Transportation | — | — | 9,882 | 11,314 | 21,481 |
| Vestcom Parent Holdings, Inc. | — | Printing and Publishing | — | — | 211,797 | 793,873 | 3,570,645 |
| VText Holdings, Inc. | — | Business Services | — | — | 35,526 | 4,050,000 | 7,597,191 |
| **Total Common Equity/Partnership Interests/Warrants** | | | | | | 36,686,122 | 55,086,558 |
| **Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies** | | | | | | 1,138,155,969 | 1,096,719,079 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)**
**SEPTEMBER 30, 2015**

| Issuer Name | Maturity / Expiration | Industry | Current Coupon | Basis Point Spread Above Index (4) | Par / Shares | Cost | Fair Value (3) |
|---|---|---|---|---|---|---|---|
| **Investments in Non-Controlled, Affiliated Portfolio Companies—13.3% (1), (2)** | | | | | | | |
| **First Lien Secured Debt—3.2%** | | | | | | | |
| TRAK Acquisition Corp. | 04/30/2018 | Business Services | 12.00% | L+1,050 | 23,514,911 | $ 23,285,423 | $ 23,044,613 |
| **Second Lien Secured Debt—1.3%** | | | | | | | |
| EnviroSolutions Real Property Holdings, Inc. | 12/26/2017 | Environmental Services | 9.00% | L+800 | 9,409,740 | 9,237,014 | 9,127,448 |
| EnviroSolutions Real Property Holdings, Inc. (9) | 12/31/2015 | Environmental Services | — | — | 758,850 | — | — |
| **Total Second Lien Secured Debt** | | | | | | 9,237,014 | 9,127,448 |
| **Subordinated Debt/Corporate Notes—4.8%** | | | | | | | |
| DirectBuy Holdings, Inc. | 11/05/2019 | Consumer Products | —(6) | — | 13,092,070 | 13,092,071 | 6,284,194 |
| Service Champ, Inc. | 10/02/2017 | Auto Sector | 12.50% | — | 28,000,000 | 27,702,867 | 27,931,507 |
| **Total Subordinated Debt/Corporate Notes** | | | | | | 40,794,938 | 34,215,701 |
| **Preferred Equity—0.7% (6)** | | | | | | | |
| PAS International Holdings, Inc. | — | Aerospace and Defense | — | — | 53,071 | 20,059,340 | 5,254,029 |
| **Common Equity/Partnership Interests/Warrants—3.3% (6)** | | | | | | | |
| DirectBuy Holdings, Inc. | — | Consumer Products | — | — | 104,719 | 21,492,822 | — |
| DirectBuy Holdings, Inc. (Warrants) | 11/05/2022 | Consumer Products | — | — | 15,486 | — | — |
| EnviroSolutions Holdings, Inc. | — | Environmental Services | — | — | 143,668 | 11,960,702 | 11,337,381 |
| NCP-Performance, L.P. | — | Leisure, Amusement, Motion Pictures and Entertainment | — | — | 375,000 | 3,750,000 | — |
| New Service Champ Holdings, Inc. | — | Auto Sector | — | — | 16,800 | 2,721,600 | 4,457,055 |
| PAS International Holdings, Inc. | — | Aerospace and Defense | — | — | 53,071 | 202,619 | 6,178,645 |
| TRAK Acquisition Corp. | — | Business Services | — | — | 491,755 | 188,837 | 1,888,232 |
| **Total Common Equity/Partnership Interests/Warrants** | | | | | | 40,316,580 | 23,861,313 |
| **Total Investments in Non-Controlled, Affiliated Portfolio Companies** | | | | | | 133,693,295 | 95,503,104 |
| **Investments in Controlled, Affiliated Portfolio Companies—15.0% (1), (2)** | | | | | | | |
| **First Lien Secured Debt—13.4%** | | | | | | | |
| RAM Energy LLC, Tranche A | 07/18/2019 | Energy and Utilities | 10.00% (PIK 10.00%) | L+800 | 76,425,000 | 75,177,005 | 72,759,582 |
| Superior Digital Displays, LLC | 12/31/2018 | Media | 14.00% (PIK 14.00%) | L+1,300 | 23,055,423 | 20,951,257 | 23,055,423 |
| **Total First Lien Secured Debt** | | | | | | 96,128,262 | 95,815,005 |
| **Second Lien Secured Debt—0.5%** | | | | | | | |
| Superior Digital Displays, LLC | 07/01/2019 | Media | 16.00% (PIK 16.00%) | L+1,500 | 3,462,417 | 3,462,417 | 3,462,417 |
| Superior Digital Displays, LLC (9) | 07/01/2019 | Media | — | — | 2,575,000 | — | — |
| **Total Second Lien Secured Debt** | | | | | | 3,462,417 | 3,462,417 |
| **Preferred Equity—0.1% (6)** | | | | | | | |
| Superior Digital Displays Holdings, Inc. | — | Media | 15.00% | — | 37,046 | 5,000,000 | 648,021 |
| **Common Equity—1.0% (6)** | | | | | | | |
| MidOcean JF Holdings Corp. | — | Distribution | — | — | 65,933 | 24,761,831 | 6,900,207 |
| RAM Energy Holdings LLC (f/k/a RAM Energy, LLC) | — | Energy and Utilities | — | — | 23,141 | 20,824,388 | — |
| Superior Digital Displays Holdings, Inc. | — | Media | — | — | 11,100 | 2,211,000 | — |
| **Total Common Equity** | | | | | | 47,797,219 | 6,900,207 |
| **Total Investments in Controlled, Affiliated Portfolio Companies** | | | | | | 152,387,898 | 106,825,650 |
| **Total Investments—181.3%** | | | | | | 1,424,237,162 | 1,299,047,833 |
| **Cash and Cash Equivalents—6.9%** | | | | | | | |
| BlackRock Liquidity Funds, Temp Cash, Institutional Shares | | | | | | 4,564,638 | 4,564,638 |
| BNY Mellon Cash Reserve and Cash | | | | | | 45,072,777 | 45,054,618 |
| **Total Cash and Cash Equivalents** | | | | | | 49,637,415 | 49,619,256 |
| **Total Investments and Cash Equivalents—188.2%** | | | | | | $1,473,874,577 | $1,348,667,089 |
| **Liabilities in Excess of Other Assets—(88.2%)** | | | | | | | (632,076,547) |
| **Net Assets—100.0%** | | | | | | | $ 716,590,542 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF INVESTMENTS – (Continued)**
**SEPTEMBER 30, 2015**

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

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2016**

## 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 senior secured debt, mezzanine debt and, to a lesser extent, equity investments. On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol "PNNT." Our 2025 Notes trade on the NYSE under the symbol "PNTA."

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

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

We have formed and expect to continue to form certain Taxable Subsidiaries which are taxed as corporations for federal income tax purposes. Accordingly, the Taxable Subsidiaries will pay income taxes at regular corporate income tax rates. These Taxable Subsidiaries allow us to hold equity securities of portfolio companies organized as pass-through entities while continuing to satisfy the requirements of a RIC under the Code.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with 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.

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

Our significant accounting policies consistently applied are as follows:

***(a) Investment Valuations***

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

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

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

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

(3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

(4) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and

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

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**
**SEPTEMBER 30, 2016**

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 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.

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

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

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectable. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, 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.

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

***(c) Income Taxes***

We have complied with the requirements of Subchapter M of the Code and have qualified to be treated as a RIC for federal income tax purposes. As a result, we account for income taxes using the asset and liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon our qualification and election to be treated as a RIC, we do not anticipate paying any material level of federal income taxes. Although we are not subject to federal income taxes as a RIC for federal income tax purposes, we may elect to retain a portion of our calendar year income, which may result in an excise tax, or we may incur taxes through our Taxable Subsidiaries. For the fiscal years ended September 30, 2016, 2015 and 2014, we have recorded a provision for taxes of $2.4 million, zero and $0.1 million, respectively.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax benefits of positions not considered to satisfy the “more-likely-than-not” threshold would be recorded as a tax expense. We did not have any material uncertain tax positions or any unrecognized tax benefits that met the recognition or measurement criteria of ASC 740-10-25 as of the periods presented herein.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and 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.

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

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

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

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

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

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

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

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

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, 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.

***(f) Consolidation***

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

**3. AGREEMENTS**

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2016. 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—Management Fees.

The base management fee is calculated at an annual rate of 2.00% of our "average adjusted gross assets" which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to 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 years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned base management fees of $20.9 million (after a waiver of $4.0 million), $26.7 million and $24.3 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). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to waive 16% of incentive fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned $13.5 million (after a waiver of $2.5 million), $20.6 million and $17.8 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 equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the years ended September 30, 2016, 2015 and 2014 the Investment Adviser did not earn an incentive fee on capital gains as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments and foreign currencies held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related 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 the years ended September 30, 2016, 2015 and 2014, 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 2016. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. The Administrator provides similar services to our SBIC Funds under each of their administration agreements with PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment has agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and PennantPark Investment's allocable portion of the costs of compensation and related expenses for its Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on PennantPark Investment's behalf, managerial assistance to portfolio companies to which PennantPark Investment is required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the fiscal years ended September 30, 2016, 2015 and 2014, the Investment Adviser was reimbursed $3.7 million, $3.3 million and $3.0 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above.

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
SEPTEMBER 30, 2016

## 4. INVESTMENTS

Purchases of investments, including PIK interest, for the fiscal years ended September 30, 2016, 2015 and 2014 totaled $345.7 million, $475.2 million and $806.1 million, respectively. Sales and repayments of investments for the same periods totaled $439.7 million, $390.5 million and $625.6 million, respectively.

Investments and cash and cash equivalents consisted of the following:

| | September 30, 2016 | | September 30, 2015 | |
|---|---|---|---|---|
| **Investment Classification** | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| First lien | $ 418,873,576 | $ 397,102,721 | $ 404,291,400 | $ 399,237,158 |
| Second lien | 451,756,995 | 425,412,443 | 631,936,443 | 612,552,913 |
| Subordinated debt / corporate notes | 189,453,101 | 177,631,517 | 227,915,734 | 182,467,798 |
| Equity and partnership interests | 193,873,474 | 153,532,994 | 160,093,585 | 104,789,964 |
| Total investments | 1,253,957,146 | 1,153,679,675 | 1,424,237,162 | 1,299,047,833 |
| Cash and cash equivalents | 75,617,133 | 75,608,113 | 49,637,415 | 49,619,256 |
| Total investments, cash and cash equivalents | $ 1,329,574,279 | $ 1,229,287,788 | $ 1,473,874,577 | $ 1,348,667,089 |

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

| | As of September 30, | |
|---|---|---|
| **Industry Classification** | **2016** | **2015** |
| Hotels, Motels, Inns and Gaming | 13% | 14% |
| Consumer Products | 9 | 8 |
| Personal, Food and Miscellaneous Services | 8 | 11 |
| Business Services | 7 | 6 |
| Distribution | 6 | 4 |
| Energy/Utilities | 6 | 6 |
| Aerospace and Defense | 5 | 2 |
| Environmental Services | 5 | 4 |
| Media | 5 | 4 |
| Oil and Gas | 5 | 6 |
| Manufacturing / Basic Industries | 4 | 1 |
| Auto Sector | 3 | 2 |
| Financial Services | 3 | 3 |
| Other Media | 3 | 3 |
| Printing and Publishing | 3 | 1 |
| Retail | 3 | 4 |
| Building Materials | 2 | 9 |
| Buildings and Real Estate | 2 | 3 |
| Electronics | 2 | 1 |
| Healthcare, Education and Childcare | 2 | 1 |
| Chemicals, Plastics and Rubber | 1 | 2 |
| Other | 3 | 5 |
| Total | 100% | 100% |

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**
**SEPTEMBER 30, 2016**

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.

Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

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

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

Our investments are generally structured as debt and equity investments in the form of senior secured debt, mezzanine debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments 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. Our ability to observe valuation inputs resulted in one reclassification from Level 2 to 1, one reclassification from Level 3 to 1 and one reclassification from Level 3 to 2 during the year ended September 30, 2016. During the year ended September 30, 2015, there were three reclassifications from Level 2 to 3 and one reclassification from Level 3 to 2.

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

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

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

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

| Asset Category | Fair Value as of September 30, 2016 | Valuation Technique | Unobservable Input | Range of Input (Weighted Average) |
|---|---|---|---|---|
| Debt investments | $ 167,489,186 | Market Comparable | Broker/Dealer bid quotes | N/A |
| Debt investments | 832,657,495 | Market Comparable | Market Yield | 8.8% – 21.7%(13.3%) |
| Equity investments | 125,633,017 | Enterprise Market Value | EBITDA multiple | 5.0x – 15.5x (8.2x) |
| Total Level 3 investments | $ 1,125,779,698 | | | |
| Long-Term Credit Facility | $ 39,551,187 | Market Comparable | Market Yield | 3.8% |

| Asset Category | Fair Value as of September 30, 2015 | Valuation Technique | Unobservable Input | Range of Input (Weighted Average) |
|---|---|---|---|---|
| Debt investments | $ 281,455,418 | Market Comparable | Broker/Dealer bid quotes | N/A |
| Debt investments | 912,802,451 | Market Comparable | Market Yield | 9.6% – 34.7%(14.1%) |
| Equity investments | 2,715,722 | Market Comparable | Broker/Dealer bid quotes | N/A |
| Equity investments | 100,453,864 | Enterprise Market Value | EBITDA multiple | 3.4x – 22.5x (9.2x) |
| Total Level 3 investments | $ 1,297,427,455 | | | |
| Long-Term Credit Facility | $ 132,356,860 | Market Comparable | Market Yield | 3.4% |

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

| | Fair Value at September 30, 2016 | | | |
|---|---|---|---|---|
| Description | Fair Value | Level 1 | Level 2 | Level 3 |
| Debt investments | $ 1,000,146,681 | $ — | $ — | $ 1,000,146,681 |
| Equity investments | 153,532,994 | 2,758,757 | 25,141,220 | 125,633,017 |
| Total investments | 1,153,679,675 | 2,758,757 | 25,141,220 | 1,125,779,698 |
| Cash and cash equivalents | 75,608,113 | 75,608,113 | — | — |
| Total investments, cash and cash equivalents | $ 1,229,287,788 | $78,366,870 | $ 25,141,220 | $ 1,125,779,698 |
| Long-Term Credit Facility | $ 39,551,187 | $ — | $ — | $ 39,551,187 |
| 2019 Notes | 254,175,000 | — | 254,175,000 | — |
| 2025 Notes | 72,618,000 | 72,618,000 | — | — |
| Total debt | $ 366,344,187 | $72,618,000 | $ 254,175,000 | $ 39,551,187 |

| | Fair Value at September 30, 2015 | | | |
|---|---|---|---|---|
| Description | Fair Value | Level 1 | Level 2 | Level 3 |
| Debt investments | $ 1,194,257,869 | $ — | $ — | $ 1,194,257,869 |
| Equity investments | 104,789,964 | — | 1,620,378 | 103,169,586 |
| Total investments | 1,299,047,833 | — | 1,620,378 | 1,297,427,455 |
| Cash and cash equivalents | 49,619,256 | 49,619,256 | — | — |
| Total investments, cash and cash equivalents | $ 1,348,667,089 | $49,619,256 | $ 1,620,378 | $ 1,297,427,455 |
| Long-Term Credit Facility | $ 132,356,860 | $ — | $ — | $ 132,356,860 |
| 2019 Notes | 253,102,500 | — | 253,102,500 | — |
| 2025 Notes | 71,136,000 | 71,136,000 | — | — |
| Total debt | $ 456,595,360 | $71,136,000 | $ 253,102,500 | $ 132,356,860 |

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**
**SEPTEMBER 30, 2016**

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

| | Year Ended September 30, 2016 | | |
|---|---|---|---|
| **Description** | **Debt investments** | **Equity investments** | **Totals** |
| Beginning Balance | $ 1,194,257,869 | $ 103,169,586 | $ 1,297,427,455 |
| Net realized (losses) gains | (91,185,306) | 5,717,455 | (85,467,851) |
| Net unrealized appreciation | 9,948,715 | 15,492,038 | 25,440,753 |
| Purchases, PIK interest, net discount accretion and non-cash exchanges | 302,824,970 | 48,102,684 | 350,927,654 |
| Sales, repayments and non-cash exchanges | (415,699,567) | (19,857,743) | (435,557,310) |
| Transfers in and/or out of Level 3 | — | (26,991,003) | (26,991,003) |
| Ending Balance | $ 1,000,146,681 | $ 125,633,017 | $ 1,125,779,698 |
| Net change in unrealized (depreciation) appreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date. | $ (38,844,736) | $ 3,040,478 | $ (35,804,258) |

| | Year Ended September 30, 2015 | | |
|---|---|---|---|
| **Description** | **Debt investments** | **Equity investments** | **Totals** |
| Beginning Balance | $ 1,161,475,899 | $ 111,862,237 | $ 1,273,338,136 |
| Net realized (losses) gains | (3,035,810) | 32,996,191 | 29,960,381 |
| Net unrealized depreciation | (76,638,642) | (43,251,477) | (119,890,119) |
| Purchases, PIK interest, net discount accretion and non-cash exchanges | 402,165,393 | 59,927,977 | 462,093,370 |
| Sales, repayments and non-cash exchanges | (333,344,376) | (57,130,358) | (390,474,734) |
| Transfers in and/or out of Level 3 | 43,635,405 | (1,234,984) | 42,400,421 |
| Ending Balance | $ 1,194,257,869 | $ 103,169,586 | $ 1,297,427,455 |
| Net change in unrealized depreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date. | $ (72,798,807) | $ (25,858,358) | $ (98,657,165) |

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

| | Carrying/Fair Value Years Ended September 30, | |
|---|---|---|
| **Long-Term Credit Facility and 2019 Notes** | **2016** | **2015** |
| Beginning Balance (cost – $106,864,300 and $305,226,300, respectively) | $ 102,356,860 | $ 304,847,870 |
| Total unrealized depreciation included in earnings | (6,281,073) | (1,026,510) |
| Borrowings (1) | 272,664,923 | 349,000,000 |
| Repayments (1) | (329,189,523) | (297,362,000) |
| Transfers in and/or out of Level 3 | — | (253,102,500) |
| Ending Balance (cost – $50,339,700 and $106,864,300, respectively) | $ 39,551,187 | $ 102,356,860 |
| Temporary draws outstanding, at cost | — | 30,000,000 |
| Ending Balance (cost – $50,339,700 and $136,864,300, respectively) | $ 39,551,187 | $ 132,356,860 |

(1) Excludes temporary draws.

We had outstanding non-USD borrowing on our Credit Facility. Net change in fair value on foreign currency translating on outstanding borrowings is listed below:

| As of September 30, | Foreign Currency | Local Currency | Original Borrowing Cost | Current Value | Reset Date | Net Change in Fair Value |
|---|---|---|---|---|---|---|
| 2016 | British Pound | £ 31,000,000 | $ 50,339,700 | $ 40,180,433 | October 3, 2016 | $ (10,159,267) |
| 2015 | British Pound | £ 28,000,000 | $ 46,864,300 | $ 42,356,860 | October 1, 2015 | $ (4,507,440) |

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**
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The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our Notes. We elected to use the fair value option for the Credit Facility and our Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred zero, zero and $8.3 million relating to debt issuance costs during the years ended September 30, 2016, 2015 and 2014, respectively. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statement of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the fiscal years ended September 30, 2016, 2015 and 2014, our Credit Facility and our Notes had a net change in unrealized depreciation (appreciation) of $3.7 million, $1.7 million and $(3.0) million, respectively. As of September 30, 2016 and 2015, net unrealized depreciation on our Credit Facility and our Notes totaled $5.2 million and $1.5 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility and 2019 Notes in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the NYSE under the ticker "PNTA" and we use the closing price on the exchange to determine their fair value.

## 6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A 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 year ended September 30, 2016 were as follows:

| Name of Investment | Fair Value at September 30, 2015 (1) | Purchases of / Advances to Affiliates (1), (2) | Sale of / Distributions from Affiliates (1) | Income Accrued | Fair Value at September 30, 2016 (1) | Net Realized Gains (Losses) |
|---|---|---|---|---|---|---|
| **Controlled Affiliates** | | | | | | |
| MidOcean JF Holdings Corp. (JF Acquisition, LLC) | $ 6,900,207 | $ 14,318,325 | $ — | $ — | $ 22,837,602 | $ — |
| RAM Energy LLC | 72,759,582 | 8,181,067 | — | 8,445,233 | 68,319,399 | — |
| Superior Digital Displays Holdings, Inc. | 27,165,861 | 10,674,296 | — | 5,036,450 | 33,862,636 | — |
| **Non-Controlled Affiliates** | | | | | | |
| Affinion Group Holdings, Inc. (3) | — | 341,025 | — | 2,369,417 | 57,109,394 | — |
| Corfin Industries LLC (3) | — | 24,351,000 | (177,750) | 2,325,887 | 25,853,063 | — |
| DirectBuy Holdings, Inc. | 6,284,194 | (751,537) | — | — | 2,799,695 | — |
| EnviroSolutions Holdings, Inc. | 20,464,829 | — | — | 931,525 | 22,522,000 | — |
| ETX Energy, LLC (4) (f/k/a New Gulf Resources, LLC) | — | 766,596 | — | 185,836 | 35,416,730 | — |
| NCP-Performance, L.P. | — | — | — | — | — | (3,750,000) |
| PAS International Holdings, Inc. | 11,432,674 | 2,811,733 | (22,265) | 682,190 | 8,233,630 | — |
| Service Champ, Inc. | 32,388,562 | — | — | 3,673,874 | 34,898,025 | — |
| TRAK Acquisition Corp. | 24,932,845 | 24,000,000 | (21,750,000) | 2,967,159 | 28,360,010 | — |
| **Total Controlled and Non-Controlled Affiliates** | $ 202,328,754 | $ 84,692,505 | $ (21,950,015) | $ 26,617,571 | $ 340,212,184 | $ (3,750,000) |

(1) Excluding delayed draw investments.
(2) Includes PIK and PIK adjustments.
(3) Became a non-controlled affiliate during the three months ended December 31, 2015.
(4) Became a non-controlled affiliate during the three months ended June 30, 2016.

## 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:

| | Years Ended September 30, 2016 | 2015 | 2014 |
|---|---|---|---|
| Numerator for net increase (decrease) in net assets resulting from operations | $ 18,736,706 | $ (10,245,652) | $ 110,983,477 |
| Denominator for basic and diluted and weighted average shares | 71,621,530 | 74,755,139 | 67,058,474 |
| Basic and diluted net increase (decrease) in net assets per share resulting from operations | $ 0.26 | $ (0.14) | $ 1.66 |

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## 8. TAXES AND DISTRIBUTIONS

Distributions from net investment income and from net realized capital gains are determined in accordance with U.S. federal tax regulations, which may materially differ from amounts determined in accordance with GAAP. These book-to-tax differences are either temporary or permanent in nature. To the extent these differences are permanent, they are reclassified to undistributed net investment income, accumulated net realized gain or paid-in-capital, as appropriate. Distributions from net realized capital gains, if any, are normally declared and paid annually, but the Company may make distributions on a more frequent basis to comply with the distribution requirements for RICs under the Code.

As of September 30, 2016 and 2015, the cost of investments for federal income tax purposes was $1,254.1 million and $1,422.5 million, respectively, resulting in a gross unrealized appreciation of $75.1 million and $57.9 million, respectively, and depreciation of $175.5 million and $181.1 million, respectively.

The following amounts were reclassified for tax purposes:

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| (Decrease) increase in paid-in capital | $ (2,548,967) | $ 142,244 | $ (1,161) |
| (Decrease) increase in accumulated net realized gain | (1,449,411) | 462,913 | 1,519,280 |
| Increase (decrease) in undistributed net investment income | 3,998,378 | (605,157) | (1,518,119) |

The following reconciles net increase (decrease) in net assets resulting from operations to taxable income:

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net increase (decrease) in net assets resulting from operations | $ 18,736,706 | $ (10,245,652) | $ 110,983,477 |
| Net realized loss (gain) on investments | 80,530,707 | (8,249,375) | (30,235,265) |
| Net change in unrealized (appreciation) depreciation on investments and debt | (28,652,631) | 122,615,435 | (9,419,695) |
| Other book-to-tax differences | (1,438,839) | 2,294,934 | 3,877,560 |
| Other non-deductible expenses | 3,648,098 | — | 82,151 |
| Taxable income before dividends paid deduction | $ 72,824,041 | $ 106,415,342 | $ 75,288,228 |

The components of undistributed taxable income on a tax basis and reconciliation to accumulated deficit on a book basis are as follows:

| | As of September 30, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Undistributed ordinary income – tax basis | $ 31,137,312 | $ 16,915,624 | $ 16,082,048 |
| Undistributed long-term capital (loss carryforward) gain | (81,242,318) | 21,711,007 | (8,518,111) |
| Distributions payable and other book to tax differences | (31,547,434) | (33,132,212) | (31,021,819) |
| Net unrealized depreciation of investments and debt | (95,035,441) | (123,688,072) | (1,072,637) |
| Total accumulated deficit – book basis | $ (176,687,881) | $ (118,193,653) | $ (24,530,519) |

The tax characteristics of distributions declared are as follows:

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Ordinary income | $ 58,068,894 | $ 83,275,238 | $ 76,937,761 |
| Long-term capital gain | 21,711,007 | — | — |
| Total distributions | $ 79,779,901 | $ 83,275,238 | $ 76,937,761 |
| Total distributions per share based on weighted average shares | $ 1.11 | $ 1.11 | $ 1.15 |

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## 9. CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out our positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from average adjusted gross assets for purposes of computing the Investment Adviser’s management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of September 30, 2016 and 2015, cash and cash equivalents consisted of $75.6 million and $49.6 million at fair value, respectively.

## 10. FINANCIAL HIGHLIGHTS

Below are the financial highlights for the years ended September 30:

| | 2016 | 2015 | 2014 | 2013 (9) | 2012 (9) |
|---|---|---|---|---|---|
| **Per Share Data:** | | | | | |
| Net asset value, beginning of year | $ 9.82 | $ 11.03 | $ 10.49 | $ 10.22 | $ 10.13 |
| Net investment income (1) | 0.99 | 1.10 | 1.06 | 1.01 | 1.08 |
| Net realized and unrealized (loss) gain (1) | (0.73) | (1.24) | 0.60 | 0.38 | 0.12 |
| Net increase (decrease) in net assets resulting from operations (1) | 0.26 | (0.14) | 1.66 | 1.39 | 1.20 |
| Distributions to stockholders (1), (2) | | | | | |
| Distribution of net investment income | (0.81) | (1.11) | (1.15) | (1.12) | (1.13) |
| Distribution of realized gains | (0.30) | — | — | — | — |
| Total distributions to stockholders | (1.11) | (1.11) | (1.15) | (1.12) | (1.13) |
| Repurchase of common stock (1) | 0.08 | 0.04 | — | — | — |
| Accretive (dilutive) effect of common stock issuance (1) | — | — | 0.03 | — | 0.02 |
| Net asset value, end of year | $ 9.05 | $ 9.82 | $ 11.03 | $ 10.49 | $ 10.22 |
| Per share market value, end of year | $ 7.52 | $ 6.47 | $ 10.91 | $ 11.28 | $ 10.61 |
| Total return (3) | 36.64% | (32.51)% | 6.76% | 17.37% | 28.71% |
| Shares outstanding at end of year | 71,060,836 | 72,966,043 | 75,092,911 | 66,499,327 | 65,514,503 |
| **Ratio / Supplemental Data:** | | | | | |
| Ratio of operating expenses to average net assets (4), (5) | 6.65% | 6.81% | 6.43% | 6.31% | 7.11% |
| Ratio of Credit Facility related expenses to average net assets (6) | 4.18% | 3.39% | 3.83% | 2.60% | 3.08% |
| Ratio of total expenses to average net assets (5), (6) | 10.83% | 10.20% | 10.26% | 8.91% | 10.19% |
| Ratio of net investment income to average net assets | 10.70% | 10.57% | 9.55% | 9.60% | 10.32% |
| Net assets at end of year | $ 643,366,856 | $ 716,590,542 | $ 828,009,949 | $ 697,506,199 | $ 669,717,047 |
| Weighted average debt outstanding (6) | $ 634,769,508 | $ 580,367,750 | $ 526,252,068 | $ 363,246,849 | $ 340,868,033 |
| Weighted average debt per share (1), (6) | $ 8.86 | $ 7.76 | $ 7.85 | $ 5.47 | $ 6.44 |
| Asset coverage per unit (7) | $ 2,756 | $ 2,569 | $ 3,198 | $ 4,261 | $ 5,636 |
| Average market value per unit (8) | $ 24.68 | $ 25.13 | 24.51 | 24.79 | N/A |
| Portfolio turnover ratio | 26.50% | 30.17% | 50.66% | 40.91% | 22.81% |

(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 year ended September 30, 2016, the ratio of operating expenses before the waiver of Management Fees to average net assets was 7.64% and the ratio of total expenses before the waiver of Management Fees to average net assets was 11.82%.
(6) Includes SBA debentures outstanding.
(7) 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 an exemptive relief letter provided by the SEC in June 2011.
(8) The average market value per unit is derived based on the monthly average closing price of the 2025 Notes trading on NYSE under the symbol “PNTA,” which were issued in increments of $25 per unit.
(9) Audited by predecessor auditors.

## 11. DEBT

Our annualized weighted average cost of debt for the fiscal years ended September 30, 2016 and 2015, inclusive of the fee on the undrawn commitment on the Credit Facility and amortized upfront fees on SBA debentures but excluding debt issuance costs, was 4.35% and 4.54%, respectively. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing, excluding SBA debentures, pursuant to exemptive relief from the SEC received in June 2011.

***Credit Facility***

As of September 30, 2016, we had a $545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of September 30, 2016 and 2015, there was $50.3 million and $136.9 million (including a temporary draw of $30.0 million), respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate at the time of 2.76% and 3.07%, respectively, exclusive of the fee on undrawn commitments of 0.375%. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

***SBA Debentures***

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC I with $75.0 million of equity capital and it had SBA debentures outstanding of $150.0 million as of September 30, 2016. We have funded SBIC II with $52.5 million of equity capital, and it had SBA debentures outstanding of $47.5 million and commitments from the SBA for another $27.5 million of debentures. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow to a maximum of $150.0 million, which is up to twice its potential regulatory capital, and per recent regulatory changes, as part of a group of SBICs under common control may borrow a maximum of $350.0 million in the aggregate.

As of September 30, 2016 and 2015, our SBIC Funds had $225.0 million in debt commitments, of which $197.5 million and $150.0 million was drawn, respectively. As of September 30, 2016 and 2015, the unamortized fees on the SBA debentures was $4.3 million and $3.7 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), (2) | As of September 30, 2016 Principal Balance | As of September 30, 2015 Principal Balance |
|---|---|---|---|---|
| September 22, 2010 | September 1, 2020 | 3.50% | $ 500,000 | $ 500,000 |
| March 29, 2011 | March 1, 2021 | 4.46 | 44,500,000 | 44,500,000 |
| September 21, 2011 | September 1, 2021 | 3.38 | 105,000,000 | 105,000,000 |
| March 23, 2016 | March 1, 2026 | 2.86 | 22,500,000 | — |
| September 21, 2016 | September 1, 2026 | 2.41 | 25,000,000 | — |
| Weighted Average Rate / Total | | 3.44% | $ 197,500,000 | $ 150,000,000 |

(1) Excluding 3.43% of upfront fees.
(2) As of September 30, 2015, the fixed all-in coupon rate was 3.70%.

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 September 30, 2016, our SBIC Funds were in compliance with their regulatory requirements.

***2019 Notes***

As of September 2016 and 2015, we had $250.0 million in aggregate principal amount of 2019 Notes. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year. 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.

***2025 Notes***

As of September 2016 and 2015, we had $71.3 million in aggregate principal amount of 2025 Notes. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

## 12. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt and equity investments, if any, are disclosed in the Consolidated Schedules of Investments. As of September 30, 2016 and 2015, we had $3.1 million and $19.7 million, respectively, in commitments to fund investments.

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### 13. STOCK REPURCHASE PROGRAM

On May 6, 2015, we announced a share repurchase plan which allowed us to repurchase up to $35.0 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 program expired on May 6, 2016. During the year ended September 30, 2016, we repurchased 1.9 million shares of common stock, respectively, in open market transactions for an aggregate cost (including transaction costs) of $12.2 million. From May 6, 2015 through the program's expiration, we purchased 4.0 million shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $30.1 million.

### 14. 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. We have determined that, as of September 30, 2016, RAM Energy Holdings LLC triggered at least one of the significance tests. RAM Energy Holdings LLC became a controlled affiliated investment as of September 30, 2015. As a result and in accordance with Rule 4-08(g) of Regulation S-K, presented below is summarized unaudited financial information for RAM Energy Holdings LLC as of September 30, 2016 and 2015 as well as for the year ended September 30, 2016. In addition, we will include the audited financial statements of RAM Energy Holdings LLC within the timeframe specified within Rule 3-09 of Regulation S-X.

| | As of September 30, | |
|---|---|---|
| **Balance Sheet (1)** | **2016** | **2015** |
| Current assets | $ 2,326.4 | $ 3,868.9 |
| Noncurrent assets | 33,678.1 | 64,236.3 |
| Current liabilities | 4,338.0 | 5,598.0 |
| Noncurrent liabilities | 90,726.3 | 82,228.4 |

| **Income Statement (1)** | **Year Ended September 30, 2016** |
|---|---|
| Total revenue | $ 7,388.4 |
| Total expenses | 46,284.7 |
| Net loss | (38,896.3) |

(1) All amounts are in thousands and unaudited.

**SUPPLEMENTARY DATA**
**Selected Quarterly Data (Unaudited)**
**(dollar amounts in thousands, except per share data)**

| | 2016 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| Total investment income | $ 32,160 | $ 35,540 | $ 39,108 | $ 35,263 |
| Net investment income | $ 15,157 | $ 17,794 | $ 20,832 | $ 16,832 |
| Net realized and unrealized gain (loss) | $ 12,552 | $ 10,039 | $ (16,882) | $ (57,587) |
| Net increase (decrease) in net assets resulting from operations | $ 27,709 | $ 27,833 | $ 3,950 | $ (40,755) |
| Net increase (decrease) in net assets resulting from operations per common share * | $ 0.37 | $ 0.39 | $ 0.06 | $ (0.56) |
| Net asset value per share at the end of the quarter | $ 9.05 | $ 8.94 | $ 8.83 | $ 9.02 |
| Market value per share at the end of the quarter | $ 7.52 | $ 6.83 | $ 6.06 | $ 6.18 |

| | 2015 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| Total investment income | $ 39,122 | $ 40,641 | $ 42,661 | $ 39,205 |
| Net investment income | $ 20,031 | $ 20,654 | $ 22,096 | $ 19,477 |
| Net realized and unrealized loss | $ (18,646) | $ (15,718) | $ (14,717) | $ (43,423) |
| Net increase (decrease) in net assets resulting from operations | $ 1,385 | $ 4,936 | $ 7,379 | $ (23,946) |
| Net increase (decrease) in net assets resulting from operations per common share * | $ 0.02 | $ 0.07 | $ 0.10 | $ (0.32) |
| Net asset value per share at the end of the quarter | $ 9.82 | $ 10.04 | $ 10.25 | $ 10.43 |
| Market value per share at the end of the quarter | $ 6.47 | $ 8.78 | $ 9.05 | $ 9.53 |

| | 2014 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| Total investment income | $ 40,144 | $ 35,474 | $ 37,879 | $ 34,439 |
| Net investment income | $ 20,148 | $ 13,197 | $ 20,029 | $ 17,955 |
| Net realized and unrealized (loss) gain | $ (21,250) | $ 18,753 | $ 20,652 | $ 21,500 |
| Net (decrease) increase in net assets resulting from operations | $ (1,102) | $ 31,949 | $ 40,681 | $ 39,455 |
| Net (decrease) increase in net assets resulting from operations per common share * | $ (0.02) | $ 0.48 | $ 0.61 | $ 0.59 |
| Net asset value per share at the end of the quarter | $ 11.03 | $ 11.33 | $ 11.13 | $ 10.80 |
| Market value per share at the end of the quarter | $ 10.91 | $ 11.46 | $ 11.05 | $ 11.60 |

* Based on the weighted average shares outstanding for the respective periods.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

***(a) Evaluation of Disclosure Controls and Procedures***

As of September 30, 2016, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings 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.

***(b) Management's Report on Internal Control Over Financial Reporting***

Management's Report on Internal Control Over Financial Reporting, which appears on page 45 of this Form 10-K, is incorporated by reference herein.

***(c) Changes in Internal Controls Over Financial Reporting***

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Item 9B. Other Information

None.

# PART III

We will file a definitive Proxy Statement for our 2017 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G (3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

## Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

## Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

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## PART IV

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as part of this Annual Report:

(1) Financial Statements—Refer to Item 8 starting on page 44.

(2) Financial Statement Schedules—None.

(3) Exhibits

| | |
|---|---|
| 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). |
| 4.2 | Base Indenture, dated as of January 22, 2013, relating to the 6.25% Senior Notes due 2025, between the Registrant and American Stock Transfer & Trust Company, LLC, as trustee (Incorporated by reference to Exhibit 99(d)(8) to the Registrant's Post-Effective Amendment No.4 to the Registration Statement on Form N-2/A (File No.333-172524), filed on January 22, 2013.<br>filed on January 22, 2013). |
| 4.3 | First Supplemental Indenture, dated as of January 22, 2013, relating to the 6.25% Senior Notes due 2025, between the Registrant and American Stock Transfer & Trust Company, LLC, as trustee (Incorporated by reference to Exhibit 99(d)(9) to the Registrant's Post-Effective Amendment No.4 to the Registration Statement on Form N-2/A (File No.333-172524), filed on January 22, 2013.<br>filed on January 22, 2013). |
| 4.4 | Form of 6.25% Senior Notes due 2025 (included as part of Exhibit 4.3). |
| 4.5 | Second Supplemental Indenture, dated as of September 23, 2014, relating to the 4.50% Notes due 2019, between the Registrant and American Stock Transfer & Trust Company, LLC, as trustee (Incorporated by reference to Exhibit 99 (d)(11) to the Registrant's Post-Effective Amendment No. 2 to Form N-2 (File No. 333-192782), filed on September 23, 2014. |
| 4.6 | Form of 4.50% Notes due 2019 (included as part of Exhibit 4.5). |
| 10.1 | First Amended and Restated Investment Advisory Management Agreement between the Registrant and PennantPark Investment Advisers, LLC (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 814-00736), filed on February 3, 2016). |
| 10.2 | Form of Administration Agreement between the Registrant and PennantPark Investment Administration LLC (Incorporated by reference to Exhibit 99(k)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008). |
| 10.3 | Dividend Reinvestment Plan (Incorporated by reference to Exhibit 99(e) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008). |
| 10.4 | Second Amended and Restated Senior Secured Revolving Credit Agreement, dated as of June 25, 2014, among PennantPark Investment Corporation, the lenders party thereto and SunTrust Bank, as administrative agent for the lenders (Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K (File No. 814-00736), filed on June 30, 2014). |
| 10.5* | Indemnification Agreement, dated as of November 15, 2016, between PennantPark Investment Corporation and each of the directors and officers listed on Schedule A attached thereto. |
| 11 | Computation of Per Share Earnings (included in the notes to the audited financial statements contained in this Report). |
| 14.1* | Joint Code of Ethics of the Registrant. |
| 21.1* | Subsidiaries of the Registrant. |
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended. |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended. |
| 32.1* | Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.1 | Privacy Policy of the Registrant (Incorporated by reference to Exhibit 99.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00736), filed on November 16, 2011). |

* Filed herewith

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| By: | /s/ ARTHUR H. PENN |
| Name: | **Arthur H. Penn** |
| Title: | **Chief Executive Officer and Chairman of the Board of Directors** |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ ARTHUR H. PENN<br>**Arthur H. Penn** | Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer) | November 21, 2016 |
| /s/ AVIV EFRAT<br>**Aviv Efrat** | Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) | November 21, 2016 |
| /s/ ADAM K. BERNSTEIN<br>**Adam K. Bernstein** | Director | November 21, 2016 |
| /s/ JEFFREY FLUG<br>**Jeffrey Flug** | Director | November 21, 2016 |
| /s/ MARSHALL BROZOST<br>**Marshall Brozost** | Director | November 21, 2016 |
| /s/ SAMUEL L. KATZ<br>**Samuel L. Katz** | Director | November 21, 2016 |

**INDEMNIFICATION AGREEMENT**

This INDEMNIFICATION AGREEMENT is made this 15th day of November, 2016 (“Agreement”) by and between PennantPark Investment Corporation (the “Company”) and each of the Company’s Directors and/or Officers listed on Schedule A hereto (each, an “Indemnitee”).

WHEREAS, at the request of the Company, Indemnitee currently serves as a Director/Officer and, therefore, may be subjected to claims, suits or proceedings arising as a result of Indemnitee’s service; and

WHEREAS, as an inducement to Indemnitee to continue to serve as such Director/Officer, the Company has agreed to indemnify Indemnitee against expenses and costs incurred by Indemnitee in connection with any such claims, suits or proceedings, to the fullest extent that is lawful; and

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. <u>Definitions</u>. For purposes of this Agreement:

(a) “Board” means the board of directors of the Company.

(b) “Corporate Status” means the status of a person as a Director, Officer, employee or agent of the Company.

(c) “Director” means a director of the Company.

(d) “Disabling Conduct” means willful misfeasance, bad faith, or gross negligence in the performance of Indemnitee’s duties as a Director/Officer, or reckless disregard of Indemnitee’s duties as a Director/Officer. Disabling Conduct also shall mean (i) an act or omission of Indemnitee that is material to the matter giving rise to a Proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (ii) actual receipt of an improper personal benefit in money, property, or services by Indemnitee, or (iii) in the case of a criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful.

(e) “Expenses” shall include all reasonable attorneys’ fees and all reasonable costs, including, without limitation, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

(f) “Independent Counsel” means counsel that meets all of the following criteria: (i) is “independent legal counsel” within the meaning of Rule 0-1(a)(6) under the Investment Company Act of 1940, as amended (the “1940 Act”), in respect of the Company; (ii) is experienced in matters of the 1940 Act and Maryland corporate law; (iii) is not currently representing, nor in the past two years has been retained to represent, the Company or Indemnitee in any matter material to either such party; and (iv) is not currently representing, nor in the past two years has been retained to represent, any other party in the Proceeding giving rise to a request for indemnification hereunder, except that the counsel also may represent another Independent Director in the Proceeding. Independent Counsel shall be selected by Indemnitee and approved by the Board (which approval shall not be unreasonably withheld). In the event that the Board does not approve Indemnitee's selection within 30 days of written notice from Indemnitee of Indemnitee's selection, Indemnitee may select another counsel from a law firm having 100 or more attorneys and rated "AV" in Martindale-Hubbell Law Directory to act as Independent Counsel for purposes of this Agreement, provided that such other counsel satisfies the criteria in (i) through (iv) in this paragraph. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under applicable standards of professional conduct, would have a material conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(g) "Indemnifiable Amounts" means reasonable Expenses, and any judgment, settlement, penalty or fine actually incurred by Indemnitee or on Indemnitee's behalf in connection with a Proceeding.

(h) "Independent Director" means a Director who is not an "interested person" (as defined in the 1940 Act) of the Company.

(i) "Officer" means an officer of the Company appointed by the Board pursuant to the Company's governing documents.

(j) "Proceeding" includes any claim, action, suit, arbitration, alternative dispute resolution mechanism, investigation, administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative, except one initiated by an Indemnitee pursuant to Section 7 of this Agreement to enforce Indemnitee's rights under this Agreement.

Section 2. Services by Indemnitee. Indemnitee agrees to continue to serve as a Director/Officer but may resign, at any time and for any reason, from such position (subject to any other contractual obligation or any obligation imposed by operation of law). The Company shall have no obligation under this Agreement to continue Indemnitee in such position, but, in the event that Indemnitee ceases to serve as a Director/Officer, Indemnitee shall nevertheless retain all rights provided under this Agreement until its termination. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries) and Indemnitee.

Section 3. Indemnification – General. The Company shall indemnify, and advance Expenses to, Indemnitee (a) as specifically provided in this Agreement and the Company's governing documents and (b) otherwise to the fullest extent permitted by applicable law in effect on the date hereof and as amended from time to time; provided, however, that no change in applicable law shall have the effect of reducing the benefits available to Indemnitee hereunder based on applicable law as in effect on the date hereof. The rights of Indemnitee provided in this Section shall include, but shall not be limited to, all rights set forth in the other Sections of this Agreement.

Section 4. Rights of Indemnification; Indemnification of Expenses for a Party. Indemnitee shall be entitled to the rights of indemnification provided in this Section 4 if, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to or otherwise involved in any pending, actual, completed or threatened Proceeding, whether or not such Proceeding is brought by or in the right of the Company and irrespective of when the conduct that is the subject of the Proceeding occurred. Pursuant to this Section 4, and subject to the procedures contained in Section 6 of this Agreement, Indemnitee shall be indemnified against all Indemnifiable Amounts by reason of Indemnitee's Corporate Status to the maximum extent permitted by applicable law in effect at the date of this

Agreement or at the time of the request for indemnification, whichever is greater, *provided that* Indemnitee shall not be indemnified against Indemnifiable Amounts if Indemnitee is made party in a Proceeding and found liable by reason of Disabling Conduct. Without limiting any other rights of Indemnitee in this Agreement, if Indemnitee is not wholly successful in such Proceeding, but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, or is not successful as to one or more claims for reasons other than Disabling Conduct, the Company shall indemnify Indemnitee against all Indemnifiable Amounts incurred by Indemnitee or on Indemnitee's behalf in connection with each claim, issue or matter to the maximum extent permitted by applicable law in effect at the date of this Agreement or at the time of the request for indemnification, whichever is greater. For purposes of this Section and without limitation, subject to the procedures contained in Section 6 of this Agreement, the termination of any claim, issue or matter in any such pending Proceeding by dismissal, with or without prejudice, or by settlement agreement without an admission of liability, shall be deemed to be a successful result as to such claim, issue or matter.

Section 5. Advancement of Expenses.

(a) Advancement of Expenses of a Party. The Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding to which Indemnitee is, or is threatened to be, made a party, within 10 business days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, prior to final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by (a) a written affirmation by Indemnitee of Indemnitee's good faith belief that Indemnitee has not engaged in Disabling Conduct in connection with the Proceeding and (b) a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee has engaged in Disabling Conduct or if Indemnitee is not successful with respect to a claim, issue or matter by reason of Disabling Conduct, as determined in accordance with Section 4. Furthermore, any such advancement shall be subject to the requirements and limitations of Section 17(h) of the 1940 Act.

(b) Indemnification and Advance of Expenses of a Non-Party. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is or may be, by reason of Indemnitee's Corporate Status, made a witness or otherwise asked to participate, or is otherwise involved, in any Proceeding, whether instituted by the Company or any other party, and to which Indemnitee is not a party, Indemnitee shall be advanced all reasonable Expenses and indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith within 10 days after the receipt by the Company of a statement or statements requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee.

Section 6. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under Sections 3 or 4 of this Agreement, Indemnitee shall submit a written request to the Company. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 6(a) hereof: (i) if the Indemnitee has been successful, on the merits or otherwise, in defense of the Proceeding at issue (including a decision in an action for which Indemnitee seeks indemnity under this Agreement), then Indemnitee shall be entitled to indemnification for Indemnifiable Amounts, and (ii) if there has been a final non-appealable decision on the merits (including a decision in an action for which Indemnitee seeks indemnity under this Agreement) by a court or other body in the Proceeding at issue or if, at the time of Indemnitee's written request, there shall have been no final non-appealable decision on the merits by a court or other body, including because the Proceeding at issue has been settled, then Indemnitee shall be entitled to indemnification, for Indemnifiable Amounts, *provided that* (a) where there has been a final non-appealable decision on the merits, the court or other body adjudicating the Proceeding at issue did not find Indemnitee liable by reason of Disabling Conduct and (b) with respect to the Proceeding at issue, a determination is made that indemnification is permissible under the circumstances because Indemnitee had not engaged in Disabling Conduct, by (1) the vote of a majority of the Independent Directors who are not parties to the Proceeding at issue, (2) Independent Counsel in a written opinion, or (3) Company shareholders. Indemnitee shall be afforded a rebuttable presumption that Indemnitee has not engaged in Disabling Conduct, except no such presumption shall be afforded in those cases where a Proceeding is terminated by conviction, or a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment.

(c) If it is determined that Indemnitee is entitled to indemnification under this Agreement, payment to Indemnitee shall be made within 10 business days after such determination. Indemnitee shall cooperate with the person making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person upon reasonable request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including reasonable attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person making such determination, in response to a request by such person, shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification).

Section 7. Remedies of Indemnitee.

(a) If (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification, (ii) advancement of Expenses is not timely made pursuant to Section 5, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 6(b) or Section 6(c) within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 4 within 10 business days after receipt by the Company of written request therefor pursuant to Section 6, or (v) payment of indemnification is not made within 10 business days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication in an appropriate court of the state of Maryland, or in any other court of competent jurisdiction, of Indemnitee's entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association.

(b) If Indemnitee, pursuant to Section 7(a), seeks a judicial adjudication or an award in arbitration of Indemnitee's rights under, or to recover damages for breach of this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all Expenses actually and reasonably incurred by Indemnitee in such judicial adjudication or arbitration, but only if Indemnitee prevails therein. If it shall be determined in said judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated in the same proportion as the amount of the indemnification or advancement of Expenses awarded in the judicial adjudication or arbitration.

Section 8. Non-Exclusivity; Insurance; Subrogation; Exclusions.

(a) The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law or the Articles of Amendment and Restatement or Bylaws of the Company, any agreement, a vote of shareholders or a resolution of Directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal.

(b) If the Company maintains liability insurance for Directors, Officers, employees, or agents of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available (including coverage after Indemnitee is no longer serving in a Corporate Status for acts and omissions or alleged acts or omissions while serving in a Corporate Status) for any such Director, Officer, employee or agent under such policy or policies.

(c) In the event of any payment under this Agreement, when Indemnitee has been fully and indefeasibly indemnified (hereunder and/or otherwise) in respect of all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with a Proceeding by reason of Indemnitee's Corporate Status, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder to the extent Indemnitee otherwise actually has received such payment under any insurance policy, contract, agreement or otherwise.

(e) Notwithstanding any other provision of this Agreement to the contrary, the Company shall not be liable for indemnification or advance of Expenses in connection with any settlement or judgment for insider trading or for disgorgement of profits pursuant to Section 16(b) of the Securities Exchange Act of 1934.

Section 9. Duration of Agreement. This Agreement supersedes any and all prior agreements between the Company and Indemnitee with respect to the subject matter hereof. This Agreement shall continue until and terminate 10 years after the date that Indemnitee shall have ceased to serve as a Director, Officer, employee, or agent of the Company, provided, that the rights of Indemnitee hereunder shall continue until the final termination of any proceeding then pending in respect of which Indemnitee is granted rights to indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 7 relating thereto. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and Indemnitee's heirs, executors and administrators. The Company agrees that it shall not sell, assign or otherwise transfer all or substantially all of its assets, or merge or reorganize with any other entity or series thereof, unless the entity or series to which such sale, assignment or transfer is being made, or that is the survivor of any such merger or reorganization, agrees to assume all of the obligations (whether contingent or otherwise) of the Company hereunder.

Section 10. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 11. Exception to Right of Indemnification or Advancement of Expenses.

(a) Notwithstanding any other provision of this Agreement, Indemnitee shall not be entitled to indemnification or advance of Expenses under this Agreement with respect to any Proceeding brought by Indemnitee (other than a Proceeding under Section 7(a) of this Agreement), unless the bringing of such Proceeding or making of such claim shall have been approved by a vote a majority of the members of the Board.

(b) Notwithstanding any other provision of this Agreement, the Company shall not be liable to indemnify Indemnitee against any liability to the Company or its shareholders to which Indemnitee (other than a Proceeding under Section 7(a) of this Agreement) otherwise would be subject by reason of Disabling Conduct.

(c) Notwithstanding any other provision of this Agreement, the Company shall not be liable to indemnify Indemnitee against any liability to the Company or its shareholders arising in connection with a Proceeding by or in the right of the Company in which the Indemnitee shall have been adjudged to be liable to the Company in a final non-appealable decision on the merits by a court or other body.

Section 12. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 13. Headings. The headings of the Sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 14. Modification and Waiver. No supplement, modification or amendment shall be binding unless executed in writing by Indemnitee and the Company. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 15. Notice by Indemnitee. Indemnitee shall promptly notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advance of Expenses covered hereunder. The failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advance of Expenses under this Agreement unless the Company’s ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

Section 16. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is mailed:

(a) If to one or more Indemnitee(s), to:

the address set forth below Indemnitee's name at the end
of this Agreement

and, in the case of an Indemnitee that is an Independent
Director, with copies to:
Nicole M. Runyan
Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, New York 10038

(b) If to the Company, to:

PennantPark Investment Corporation
590 Madison Avenue, 15th Floor
New York, New York 10022
Attention: Chief Financial Officer

with copies to:
Thomas J. Friedmann
David J. Harris
William J. Tuttle
Dechert LLP
1900 K Street, N.W.
Washington, District of Columbia 20006

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

Section 17. Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the state of Maryland.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

PENNANTPARK INVESTMENT CORPORATION

/s/ Arthur H. Penn
By: Arthur H. Penn
Title: Chairman and Chief Executive Officer

AGREED TO AND ACCEPTED BY:

/s/ Adam K. Bernstein
Name: Adam K. Bernstein

/s/ Marshall S. Brozost
Name: Marshall S. Brozost

/s/ Jeffrey Flug
Name: Jeffrey Flug

/s/ Samuel L. Katz
Name: Samuel L. Katz

/s/ Arthur H. Penn
Name: Arthur H. Penn

/s/ Aviv Efrat
Name: Aviv Efrat

/s/ Guy F. Talarico
Name: Guy F. Talarico

Schedule A

Directors

Adam K. Bernstein
Marshall Brozost
Jeffrey Flug
Samuel L. Katz
Arthur H. Penn[1]

Officers

Aviv Efrat
Guy F. Talarico

1 Mr. Penn is Chief Executive Officer and Chairman of the Board of Directors of the Company.

EXHIBIT 14.1

**JOINT CODE OF ETHICS**
**FOR**
**PENNANTPARK INVESTMENT CORPORATION**
**PENNANTPARK FLOATING RATE CAPITAL LTD.**
**PENNANTPARK INVESTMENT ADVISERS, LLC**

**Section I Statement of General Fiduciary Principles**

This Joint Code of Ethics (the "Code") has been adopted by each of PennantPark Investment Corporation, PennantPark Floating Rate Capital, Ltd. (each individually, the "Corporation"), and PennantPark Investment Advisers, LLC, the Corporations' investment adviser (the "Adviser"), in compliance with Rule 17j-1 under the Investment Company Act of 1940 (the "Act") and Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"). The purpose of the Code is to establish standards and procedures for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Corporations may abuse their fiduciary duty to the Corporations, and otherwise to deal with the types of conflict of interest situations to which Rule 17j-1 is addressed. As it relates to Section 204A of the Advisers Act, the purpose of this Code is to establish procedures that, taking into consideration the nature of the Adviser's business, are reasonably designed to prevent misuse of material non-public information in violation of the federal securities laws by persons associated with the Adviser.

The Code is based on the principle that the directors and officers of the Corporations, and the managers, partners, officers and employees of the Adviser, who provide services to the Corporations, owe a fiduciary duty to the Corporations to conduct their personal securities transactions in a manner that does not interfere with the Corporations' transactions or otherwise take unfair advantage of their relationship with the Corporations. All directors, managers, partners, officers and employees of the Corporations, and the Adviser ("Covered Personnel") are expected to adhere to this general principle as well as to comply with all of the specific provisions of this Code that are applicable to them. Any Covered Personnel who is affiliated with another entity that is a registered investment adviser is, in addition, expected to comply with the provisions of the code of ethics that has been adopted by such other investment adviser.

Technical compliance with the Code will not automatically insulate any Covered Personnel from scrutiny of transactions that show a pattern of compromise or abuse of the individual's fiduciary duty to the Corporation. Accordingly, all Covered Personnel must seek to avoid any actual or potential conflicts between their personal interests and the interests of the Corporation and its shareholders. In sum, all Covered Personnel shall place the interests of the Corporation before their own personal interests.

All Covered Personnel must read and retain this Code.

**Section II Definitions**

(A) "Access Person" means any director, officer, general partner or Advisory Person (as defined below) of the Corporations or the Adviser.

(B) An "Advisory Person" of the Corporation or the Adviser means: (i) any employee of the Corporation or the Adviser, or any company in a Control (as defined below) relationship to the Corporation or the Adviser, who in connection with his or her regular functions or duties makes, participates in, or obtains information regarding the purchase or sale of any Covered Security (as defined below) by the Corporation, or whose functions relate to the making of any recommendation with respect to such purchases or sales; and (ii) any natural person in a Control relationship to the Corporation or the Adviser, who obtains information concerning recommendations made to the Corporation with regard to the purchase or sale of any Covered Security by the Corporation.

(C) "Beneficial Ownership" is interpreted in the same manner as it would be under Rule 16a-1(a)(2) under the Securities Exchange Act of 1934 (the "1934 Act") in determining whether a person is a beneficial owner of a security for purposes of Section 16 of the 1934 Act and the rules and regulations thereunder.

(D) "Chief Compliance Officer" means the Chief Compliance Officer of the Corporation (who also may serve as the compliance officer of the Adviser and/or one or more affiliates of the Adviser).

(E) "Control" shall have the same meaning as that set forth in Section 2(a)(9) of the Act.

(F) "Covered Security" means a security as defined in Section 2(a)(36) of the Act, which includes: any note, stock, treasury stock, security future, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, pre-organization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security (including a certificate of deposit) or on any group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "security," or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

Except that "Covered Security" does not include: (i) direct obligations of the Government of the United States; (ii) bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements; and (iii) shares issued by open-end investment companies registered under the Act. References to a Covered Security in this Code (e.g., a prohibition or requirement applicable to the purchase or sale of a Covered Security) shall be deemed to refer to and to include any warrant for, option in, or security immediately convertible into that Covered Security, and shall also include any instrument that has an investment return or value that is based, in whole or in part, on that Covered Security (collectively, "Derivatives"). Therefore, except as otherwise specifically provided by this Code: (i) any prohibition or requirement of this Code applicable to the purchase or sale of a Covered Security shall also be applicable to the purchase or sale of a Derivative relating to that Covered Security; and (ii) any prohibition or requirement of this Code applicable to the purchase or sale of a Derivative shall also be applicable to the purchase or sale of a Covered Security relating to that Derivative.

(G) "Independent Director" means a director of the Corporation who is not an "interested person" of the Corporation within the meaning of Section 2(a)(19) of the Act.

(H) "Initial Public Offering" means an offering of securities registered under the Securities Act of 1933 (the "1933 Act"), the issuer of which, immediately before the registration, was not subject to the reporting requirements of Sections 13 or 15(d) of the 1934 Act.

(I) "Limited Offering" means an offering that is exempt from registration under the 1933 Act pursuant to Section 4(2) or Section 4(6) thereof or pursuant to Rule 504, Rule 505, or Rule 506 thereunder.

(J) "Restricted List" means the "Pipeline" report of potential investments combined with the current holdings of the clients. PennantPark Access Persons are restricted from trading any security on the Restricted List.

(K) "Security Held or to be Acquired" by the Corporation means: (i) any Covered Security which, within the most recent 15 days: (A) is or has been held by the Corporation; or (B) is being or has been considered by the Corporation or the Adviser for purchase by the Corporation; and (ii) any option to purchase or sell, and any security convertible into or exchangeable for, a Covered Security described in Section II (K)(i).

(L) "17j-1 Organization" means the Corporation or the Adviser, as the context requires.

**Section III Objective and General Prohibitions**

Covered Personnel may not engage in any investment transaction under circumstances in which the Covered Personnel benefits from or interferes with the purchase or sale of investments by the Corporation. In addition, Covered Personnel may not use information concerning the investments or investment intentions of the Corporation, or their ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of the Corporation.

Covered Personnel may not engage in conduct that is deceitful, fraudulent or manipulative, or that involves false or misleading statements, in connection with the purchase or sale of investments by the Corporation. In this regard, Covered Personnel should recognize that Rule 17j-1 makes it unlawful for any affiliated person of the Corporation, or any affiliated person of an investment adviser for the Corporation, in connection with the purchase or sale, directly or indirectly, by the person of a Security Held or to be Acquired by the Corporation to:

(i) employ any device, scheme or artifice to defraud the Corporation;

(ii) make any untrue statement of a material fact to the Corporation or omit to state to the Corporation a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;

(iii) engage in any act, practice or course of business that operates or would operate as a fraud or deceit upon the Corporation; or

(iv) engage in any manipulative practice with respect to the Corporation.

Covered Personnel should also recognize that a violation of this Code or of Rule 17j-1 may result in the imposition of: (1) sanctions as provided by Section VIII below; or (2) administrative, civil and, in certain cases, criminal fines, sanctions or penalties.

**Section IV Pre-Clearance of Personal Account Transactions; Window Period to Trade PennantPark shares**

Except as noted below, all Access Persons must obtain the prior written approval of the Managing Member (or such person as the Managing Member may designate) ("Approving Officer") before engaging in any transaction in his or her Personal Account. The Approving Officer may approve the transaction if he concludes that the transaction would comply with the provisions of this Code of Ethics and is not likely to have any adverse economic impact on clients. A request for preclearance must be made by email, with a copy to the Compliance Officer, in advance of the contemplated transaction. No particular form is required, but the email must include sufficient detail for the Approving Officer to decide if a trade is permissible.

Any approval given under this paragraph will be provided by email and will remain in effect for 72 hours.

<u>Exceptions to the Pre-Clearance Requirement Policy</u>,

Access Persons will be allowed to trade securities of the Corporations during a "window period" that may be announced following the release of Corporations' earnings release. If the window is opened for trading, it will begin no earlier than the second business day after a Corporation publicly releases quarterly or annual financial results and extends no later than 30 calendar days after the release of results (29 calendar days in all). Note that the ability of an officer, director or other Access Person to engage in transactions in the securities of a Corporation during a window period is not automatic or absolute because no trades may be made even during a window period by an individual who possesses material, nonpublic information. Further, the window period may not open in a particular quarter, and it may be closed prior to the expiration of 30 days, as events require.

Additionally, Independent Directors are not required to seek preapproval for any transactions other than those which would trigger reporting requirements as set forth in Section VI (C) of this Code below.

**Section V Prohibited Transactions**

(A) An Access Person may not purchase or otherwise acquire direct or indirect Beneficial Ownership of any Covered Security on the Restricted List, and may not sell or otherwise dispose of any Covered Security on the Restricted List in which he or she has direct or indirect Beneficial Ownership, if he or she knows or should know at the time of entering into the transaction that: (1) the Corporation has purchased or sold the Covered Security within the last 15 calendar days, or is purchasing or selling or intends to purchase or sell the Covered Security in the next 15 calendar days; or (2) the Adviser has within the last 15 calendar days considered purchasing or selling the Covered Security for the Corporation or within the next 15 calendar days intend to consider purchasing or selling the Covered Security for the Corporation.

(B) Every Advisory Person of the Corporation or the Adviser must obtain approval from the Corporation or the Adviser, as the case may be, before directly or indirectly acquiring Beneficial Ownership in any securities in an Initial Public Offering or in a Limited Offering. Such approval must be obtained from the Chief Compliance Officer, unless he is the person seeking such approval, in which case it must be obtained from the President of the 17j-1 Organization.

(C) No Access Person shall recommend any transaction in any Covered Securities by the Corporation without having disclosed to the Chief Compliance Officer his or her interest, if any, in such Covered Securities or the issuer thereof, including: the Access Person's Beneficial Ownership of any Covered Securities of such issuer; any contemplated transaction by the Access Person in such Covered Securities; any position the Access Person has with such issuer; and any present or proposed business relationship between such issuer and the Access Person (or a party which the Access Person has a significant interest).

**Section VI Reports by Access Persons**

(A) Personal Securities Holdings Reports.

All Access Persons shall within 10 days of the date on which they become Access Persons, and thereafter, within 30 days after the end of each calendar year, disclose the title, number of shares and principal amount of all Covered Securities in which they have a Beneficial Ownership as of the date the person became an Access Person, in the case of such person's initial report, and as of the last day of the year, as to annual reports. A form of such report, which is hereinafter called a "Personal Securities Holdings Report," is attached as Schedule A. Each Personal Securities Holdings Report must also disclose the name of any broker, dealer or bank with whom the Access Person maintained an account in which any securities were held for the direct or indirect benefit of the Access Person as of the date the person became an Access Person or as of the last day of the year, as the case may be. Each Personal Securities Holdings Report shall state the date it is being submitted.

(B) Quarterly Transaction Reports.

Within 30 days after the end of each calendar quarter, each Access Person shall make a written report to the Chief Compliance Officer of all transactions occurring in the quarter in a Covered Security in which he or she had any Beneficial Ownership. A form of such report, which is hereinafter called a “Quarterly Securities Transaction Report,” is attached as Schedule B.

A Quarterly Securities Transaction Report shall be in the form of Schedule B or such other form approved by the Chief Compliance Officer and must contain the following information with respect to each reportable transaction:

(1) Date and nature of the transaction (purchase, sale or any other type of acquisition or disposition);

(2) Title, interest rate and maturity date (if applicable), number of shares and principal amount of each Covered Security involved and the price of the Covered Security at which the transaction was effected;

(3) Name of the broker, dealer or bank with or through whom the transaction was effected; and

(4) The date the report is submitted by the Access Person.

(C) Independent Directors.

Notwithstanding the reporting requirements set forth in this Section V, an Independent Director who would be required to make a report under this Section V solely by reason of being a director of the Corporation is not required to file a Personal Securities Holding Report upon becoming a director of the Corporation or an annual Personal Securities Holding Report. Such an Independent Director also need not file a Quarterly Securities Transaction Report unless such director knew or, in the ordinary course of fulfilling his or her official duties as a director of the Corporation, should have known that during the 15-day period immediately preceding or after the date of the transaction in a Covered Security by the director such Covered Security is or was purchased or sold by the Corporation or the Corporation or the Adviser considered purchasing or selling such Covered Security.

(D) Access Persons of the Adviser.

An Access Person of the Adviser need not make a Quarterly Transaction Report if all of the information in the report would duplicate information required to be recorded pursuant to Rules 204-2(a)(12) or (13) under the Investment Advisers Act of 1940, as amended.

(E) Brokerage Accounts and Statements.

Access Persons, except Independent Directors, shall:

(1) within 10 days after the end of each calendar quarter, identify the name of the broker, dealer or bank with whom the Access Person established an account in which any securities were held during the quarter for the direct or indirect benefit of the Access Person and identify any new account(s) and the date the account(s) were established. This information shall be included on the appropriate Quarterly Securities Transaction Report.

(2) instruct the brokers, dealers or banks with whom they maintain such an account to provide duplicate account statements to the Chief Compliance Officer.

(3) on an annual basis, certify that they have complied with the requirements of (1) and (2) above.

(F) Form of Reports.

A Quarterly Securities Transaction Report may consist of broker statements or other statements that provide a list of all personal Covered Securities holdings and transactions in the time period covered by the report and contain the information required in a Quarterly Securities Transaction Report.

(G) Responsibility to Report.

It is the responsibility of each Access Person to take the initiative to comply with the requirements of this Section V. Any effort by the Corporation, or by the Adviser and its affiliates, to facilitate the reporting process does not change or alter that responsibility. A person need not make a report hereunder with respect to transactions effected for, and Covered Securities held in, any account over which the person has no direct or indirect influence or control.

(H) Where to File Reports.

All Quarterly Securities Transaction Reports and Personal Securities Holdings Reports must be filed with the Chief Compliance Officer.

(I) Disclaimers.

Any report required by this Section V may contain a statement that the report will not be construed as an admission that the person making the report has any direct or indirect Beneficial Ownership in the Covered, Security to which the report relates.

(J) Exceptions from Reporting Requirements.

Reports are not required: (1) with respect to securities held in accounts over which the access person has no direct or indirect influence or control as determined by the CCO in accordance with applicable guidance, a “Third Party Managed Account”; (2) with respect to transactions effected pursuant to an automatic investment plan; or (3) which would duplicate information contained in broker trade confirmations or account statements provided the adviser receives such confirmations or statements within 30 days after the end of the applicable calendar quarter and holds them in its books and records. PennantPark allows, but does not require, Access Persons to direct their brokers to provide duplicate statements and confirmations for this purpose.

(K) Blind Trusts and other Third Party Managed Accounts.

Rule 204A-1(b)(3)(i) provides that an access person is not required "to submit . . .. any report [(i.e., initial and annual holdings reports and quarterly transaction reports)] with respect to securities held in accounts over which the access person has no direct or indirect influence or control." Examples of such accounts include "Blind Trusts" where the access person has no knowledge of specific actions taken by the Trustee with respect to Trust investments and no right to intervene in the trustee's management. Additionally, accounts with similar features that limit the access person's involvement, including other types of trusts and accounts managed by an unaffiliated manager with discretionary authority. However, the mere retention of a trustee or manager to advise an access person's account on a discretionary basis is not, by itself, sufficient to allow for a conclusion that the access person has no direct or indirect influence or control. Rather, under the Guidance, the adviser must make a reasonable determination, based on reasonably designed policies and procedures, whether "the access person actually had direct or indirect influence or control over the trust or account, rather than whether the third-party manager had discretionary or non-discretionary investment authority."

Access persons who wish to rely on this exception with respect to any account which otherwise would be reportable must register the account with the CCO who will determine, based on relevant facts and circumstances (including the terms of the account), whether the access person has direct or indirect influence or control over the account. An access person would have direct or indirect influence or control over an account where the access person (i) has the ability to suggest or direct purchases or sales; (ii) consults with the trustee or manager as to the particular allocation of investments to be made in the account; or (iii) engages in regular and substantive discussions with the trustee or manager with respect to account holdings. However, the following activities would not preclude the CCO from determining that an account is a Third Party Managed Account: (i) the access person provides information about his or her investment objectives and reasonable restrictions; (ii) the trustee or manager provides summary descriptions or explanations (whether written or oral) regarding account activity to the access person, provided that the access person does not provide suggestions or directions to the trustee or manager; and (iii) the access person is able to make contributions to and withdrawals from the account, provided that the access person may not instruct the trustee or manager as to specific securities or types of securities which should be purchased or liquidated in connection with the contribution or withdrawal.

No account shall be treated as a Third Party Managed Account until the CCO determines and informs the access person that the account meets the relevant requirements. In making a determination that an account meets the requirements to be treated as a Third Party Managed Account, the CCO may consider, as he or she determines relevant under the circumstances:

(1) The terms of the account or trust documentation, including the advisory agreement;

(2) Information obtained from the access person as to the nature of the access person's relationship with the trustee or manager (e.g., whether the trustee or manager is a friend or relative of the access person; whether the advisory firm is affiliated with PennantPark);

(3) Specific periodic certifications from the access person, trustee and/or manager, as to the nature of the account and whether the access person has sought to exercise influence or control over the trustee or manager;

(4) Certification or representation from the access person that he or she has reviewed the Code, including this section defining the exception and describing the relevant determinative factors as to concluding that the access person does not exercise direct or indirect influence or control; and

(5) Any other information that the CCO believes necessary or appropriate to determine whether the account meets the standards set forth herein.

The CCO will document, in writing, his or her conclusion as to whether the account meets the requirements to be treated as a Third Party Managed Account to rely on the reporting exception and will periodically review such determination with the access person. The CCO may require that the access person (and, where appropriate, the manager/trustee) provide additional or renewed certifications or information about the account. Additionally, the CCO may require that the access person provide reports on a sample basis as to account holdings and/or transactions. The CCO will review any such reports to determine whether transactions in the account would have been inconsistent with this Code absent reliance on the reporting exception. The CCO will keep relevant records to document these reviews and support his or her conclusions as to the status of the relevant account(s).

**Section VII Additional Prohibitions**

(A) Confidentiality of the Corporation's Transactions.

Until disclosed in a public report to shareholders or to the Securities and Exchange Commission in the normal course, all information concerning the securities "being considered for purchase or sale" by the Corporation shall be kept confidential by all Covered Personnel and disclosed by them only on a "need to know" basis. It shall be the responsibility of the Chief Compliance Officer to report any inadequacy found in this regard to the directors of the Corporation.

(B) Outside Business Activities and Directorships.

Access Persons may not engage in any outside business activities that may give rise to conflicts of interest or jeopardize the integrity or reputation of the Corporation. Similarly, no such outside business activities may be inconsistent with the interests of the Corporation. All directorships of public or private companies held by Access Persons shall be reported to the Chief Compliance Officer.

(C) Gratuities.

Covered Personnel shall not, directly or indirectly, take, accept or receive gifts or other consideration in merchandise, services or otherwise of more than nominal value from any person, firm, corporation, association or other entity other than such person's employer that does business, or proposes to do business, with the Corporation.

**Section VIII Prohibition Against Insider Trading**

This Section is intended to satisfy the requirements of Section 204A of the Advisers Act, which is applicable to the Adviser and requires that the Adviser establish and enforce procedures designed to prevent the misuse of material, non-public information by its associated persons. It applies to all Advisory Persons. Trading securities while in possession of material, non-public information, or improperly communicating that information to others, may expose an Advisory Person to severe penalties. Criminal sanctions may include a fine of up to $1,000,000 and/or ten years imprisonment. The SEC can recover the profits gained or losses avoided through the violative trading, a penalty of up to three times the illicit windfall, and an order permanently barring an Advisory Person from the securities industry. Finally, an Advisory Person may be sued by investors seeking to recover damages for insider trading violations.

(A) No Advisory Person may trade a security, either personally or on behalf of any other person or account (including any fund), while in possession of material, non-public information concerning that security or the issuer thereof, nor may any Advisory Person communicate material, non-public information to others in violation of the law.

(B) Information is "material" where there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decisions. Generally, this includes any information the disclosure of which will have a substantial effect on the price of a security. No simple test exists to determine when information is material; assessments of materiality involve a highly fact specific inquiry. For this reason, an Advisory Person should direct any questions about whether information is material to the Chief Compliance Officer. Material information often relates to a company's results and operations, including, for example, dividend changes, earnings results, changes in previously released earnings estimates, significant merger or acquisition proposals or agreements, major litigation, liquidation problems, and extraordinary management developments. Material information may also relate to the market for a company's securities. Information about a significant order to purchase or sell Securities may, in some contexts, be material. Pre-publication information regarding reports in the financial press may also be material.

(C) Information is "public" when it has been disseminated broadly to investors in the marketplace. For example, information is public after it has become available to the general public through a public filing with the SEC or some other government agency, the Dow Jones "tape" or *The Wall Street Journal* or some other publication of general circulation, and after sufficient time has passed so that the information has been disseminated widely.

(D) An Advisory Person, before executing any trade for himself or herself, or others, including the Corporation or other accounts managed by the Adviser or by a stockholder of the Adviser, or any affiliate of the stockholder ("Client Accounts"), must determine whether he or she has material, non-public information. Any Advisory Person who believes he or she is in possession of material, non-public information must take the following steps:
(1) Report the information and proposed trade immediately to the Chief Compliance Officer.
(2) Do not purchase or sell the securities on behalf of anyone, including Client Accounts.
(3) Do not communicate the information to any person, other than to the Chief Compliance Officer.

After the Chief Compliance Officer has reviewed the issue, the Chief Compliance Officer will determine whether the information is material and non-public and, if so, what action the Advisory Person should take. An Advisory Person must consult with the Chief Compliance Officer before taking any further action. This degree of caution will protect the Advisory Person and the Adviser.

(E) To prevent and detect insider trading from occurring, the Chief Compliance Officer shall prepare and maintain a "Restricted List" in order to monitor and prevent the occurrence of insider trading in certain securities that Access Persons are prohibited or restricted from trading. The Chief Compliance Officer manages, maintains and updates the Restricted List to actually restrict trading (no buying, no selling, no shorting, no trading, etc.) in the securities of specific issuers for personal accounts and on behalf Adviser's clients. Before executing any trade for himself or herself, Advisory Persons are required to determine whether the transaction involves a security on the Restricted List. Advisory Persons are prohibited from trading any security which appears on the Restricted List, except that, with prior approval, an Advisory Person may sell securities which were not on the Restricted List when acquired (or which were acquired at a time when the Advisory Person was not subject to such restrictions). The Restricted List must be maintained strictly confidential and not disclosed to anyone outside of the Adviser and the Corporation.

(F) Contacts with public companies will sometimes be a part of an Adviser's research efforts. Persons providing investment advisory services to the Corporation may make investment decisions on the basis of conclusions formed through such contacts and analysis of publicly available information. Difficult legal issues arise, however, when, in the course of these contacts, an Advisory Person becomes aware of material, non-public information. This could happen, for example, if a company's chief financial officer prematurely discloses quarterly results to an analyst, or an investor relations representative makes selective disclosure of adverse news to a handful of investors. In such situations, the Adviser must make a judgment as to its further conduct. To protect yourself, clients and the Adviser, you should contact the Chief Compliance Officer immediately if you believe that you may have received material, non-public information.

**Section IX Annual Certification**

(A) Access Persons.

Access Persons who are directors, managers, officers or employees of the Corporation or the Adviser shall be required to certify annually that they have read this Code and that they understand it and recognize that they are subject to it. Further, such Access Persons shall be required to certify annually that they have complied with the requirements of this Code.

(B) Board Review.

No less frequently than annually, the Corporation and the Adviser must furnish to the Corporation's board of directors, and the board must consider, a written report that: (A) describes any issues arising under this Code or procedures since the last report to the board, including, but not limited to, information about material violations of the Code or procedures and sanctions imposed in response to material violations; and (B) certifies that the Corporation or the Adviser, as applicable, has adopted procedures reasonably necessary to prevent Access Persons from violating the Code.

**Section X Sanctions**

Any violation of this Code shall be subject to the imposition of such sanctions by the 17j-1 Organization as may be deemed appropriate under the circumstances to achieve the purposes of Rule 17j-1 and this Code. The sanctions to be imposed shall be determined by the board of directors, including a majority of the Independent Directors, provided, however, that with respect to violations by persons who are directors, managers, officers or employees of the Adviser (or of a company that controls the Adviser), the sanctions to be imposed shall be determined by the Adviser (or the controlling person thereof). Sanctions may include, but are not limited to, suspension or termination of employment, a letter of censure and/or restitution of an amount equal to the difference between the price paid or received by the Corporation and the more advantageous price paid or received by the offending person.

**Section XI Administration and Construction**

(A) The administration of this Code shall be the responsibility of the Chief Compliance Officer.
(B) The duties of the Chief Compliance Officer are as follows:

(1) Continuous maintenance of a current list of the names of all Access Persons with an appropriate description of their title or employment, including a notation of any directorships held by Access Persons who are officers or employees of the Adviser or of any company that controls the Adviser, and informing all Access Persons of their reporting obligations hereunder;

(2) On an annual basis, providing all Covered Personnel a copy of this Code and informing such persons of their duties and obligations hereunder including any supplemental training that may be required from time to time;

(3) Maintaining or supervising the maintenance of all records and reports required by this Code;

(4) Preparing listings of all transactions effected by Access Persons who are subject to the requirement to file Quarterly Securities Transaction Reports and reviewing such transactions against a listing of all transactions effected by the Corporation;

(5) Issuance either personally or with the assistance of counsel as may be appropriate, of any interpretation of this Code that may appear consistent with the objectives of Rule 17j-1 and this Code;

(6) Conduct such inspections or investigations as shall reasonably be required to detect and report, with recommendations, any apparent violations of this Code to the board of directors of the Corporation;

(7) Submission of a report to the board of directors of the Corporation, no less frequently than annually, a written report that describes any issues arising under the Code since the last such report, including but not limited to the information described in Section VII (B); and

(C) The Chief Financial Officer shall maintain and cause to be maintained in an easily accessible place at the principal place of business of the 17j-1 Organization, the following records:

(1) A copy of all codes of ethics adopted by the Corporation or the Adviser and its affiliates, as the case may be, pursuant to Rule 17j-1 that have been in effect at any time during the past five (5) years;

(2) A record of each violation of such codes of ethics and of any action taken as a result of such violation for at least five (5) years after the end of the fiscal year in which the violation occurs;

(3) A copy of each report made by an Access Person for at least two (2) years after the end of the fiscal year in which the report is made, and for an additional three (3) years in a place that need not be easily accessible;

(4) A copy of each report made by the Chief Compliance Officer to the board of directors for two (2) years from the end of the fiscal year of the Corporation in which such report is made or issued and for an additional three (3) years in a place that need not be easily accessible;

(5) A list of all persons who are, or within the past five (5) years have been, required to make reports pursuant to the Rule and this Code of Ethics, or who are or were responsible for reviewing such reports;

(6) A copy of each report required by Section VII (B) for at least two (2) years after the end of the fiscal year in which it is made, and for an additional three (3) years in a place that need not be easily accessible; and

(7) A record of any decision, and the reasons supporting the decision, to approve the acquisition by an Advisory Person of securities in an Initial Public Offering or Limited Offering for at least five (5) years after the end of the fiscal year in which the approval is granted.

(D) This Code may not be amended or modified except in a written form that is specifically approved by majority vote of the Independent Directors.

This Joint Code of Ethics, originally adopted December 12, 2007, is annually reviewed and approved by the Board of Directors of the Corporation, including a majority of the Independent Directors.

**Subsidiaries of the Registrant**

| Name of entity and place of jurisdiction | Voting Securities Owned Percentage |
|---|---|
| PennantPark SBIC GP, LLC (Delaware) | 100% |
| PennantPark SBIC GP II, LLC (Delaware) | 100% |
| PennantPark SBIC LP (Delaware) | 100%(1) |
| PennantPark SBIC II LP (Delaware) | 100%(2) |
| PNNT Alabama Holdings Inc. (Delaware) | 100%(3) |
| PNNT Cascade Environmental Holdings, LLC | 100% |
| PNNT CI (FBM) Investment Holdings LLC (Delaware) | 100%(3) |
| PNNT CI (GALLS) Prime Investment Holdings, LLC (Delaware) | 100% |
| PNNT ecoserve, LLC (Delaware) | 100% |
| PNNT Investment Holdings, LLC (Delaware) | 100% |
| PNNT New Gulf Resources, LLC (Delaware) | 100% |
| PNNT Power Products Holdings, LLC (Delaware) | 100% |
| RAM Energy Holdings LLC (Delaware) | 100%(4) |
| Superior Digital Displays, LLC (Delaware) | 93%(4) |

(1) The entity is directly owned 99% by us and 1% by PennantPark SBIC GP, LLC which is effectively wholly-owned by us.
(2) The entity is directly owned 99% by us and 1% by PennantPark SBIC GP II, LLC, which is effectively wholly-owned by us.
(3) This entity is not operational.
(4) This is a controlled affiliated investment.

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO SECTION 302**
**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Arthur H. Penn, Chief Executive Officer and Chairman of the Board of Directors of PennantPark Investment Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of PennantPark Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2016

/s/ Arthur H. Penn
Name: Arthur H. Penn
Title: Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO SECTION 302**
**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Aviv Efrat, Chief Financial Officer of PennantPark Investment Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of PennantPark Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2016

/s/ Aviv Efrat
Name: Aviv Efrat
Title: Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)**

In connection with the Annual Report on Form 10-K of PennantPark Investment Corporation for the annual period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur H. Penn, as Chief Executive Officer of the Registrant hereby certify, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Arthur H. Penn
Name: Arthur H. Penn
Title: Chief Executive Officer
Date: November 21, 2016

**EXHIBIT 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)**

In connection with the Annual Report on Form 10-K of PennantPark Investment Corporation for the annual period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aviv Efrat, as Chief Financial Officer of the Registrant hereby certify, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Aviv Efrat
Name: Aviv Efrat
Title: Chief Financial Officer
Date: November 21, 2016