

PENNANTPARK INVESTMENT CORP  
Form 10-Q  
February 08, 2017  
[Table of Contents](#)

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

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 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, 15<sup>th</sup> Floor**

**New York, N.Y.**

**10022**

**(Address of principal executive offices)**

**(Zip Code)**

**(212) 905-1000**

**(Registrant's Telephone Number, Including Area Code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of February 8, 2017 was 71,060,836.

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2016**

**TABLE OF CONTENTS**

**PART I. CONSOLIDATED FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements**

Consolidated Statements of Assets and Liabilities as of December 31, 2016 (unaudited) and September 30, 2016 4

Consolidated Statements of Operations for the three months ended December 31, 2016 and 2015 (unaudited) 5

Consolidated Statements of Changes in Net Assets for the three months ended December 31, 2016 and 2015 (unaudited) 6

Consolidated Statements of Cash Flows for the three months ended December 31, 2016 and 2015 (unaudited) 7

Consolidated Schedules of Investments as of December 31, 2016 (unaudited) and September 30, 2016 8

Notes to Consolidated Financial Statements (unaudited) 14

Report of Independent Registered Public Accounting Firm 25

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** 26

**Item 3. Quantitative and Qualitative Disclosures About Market Risk** 33

**Item 4. Controls and Procedures** 33

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings** 34

**Item 1A. Risk Factors** 34

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** 34

**Item 3. Defaults Upon Senior Securities** 34

**Item 4. Mine Safety Disclosures** 34

**Item 5. Other Information** 34

**Item 6. Exhibits** 35

**SIGNATURES** 36

**Table of Contents**

**PART I CONSOLIDATED FINANCIAL INFORMATION**

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

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

	December 31, 2016 (unaudited)	September 30, 2016
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost \$918,332,509 and \$805,189,545, respectively)	\$ 946,232,162	\$ 813,467,491
Non-controlled, affiliated investments (cost \$292,491,050 and \$262,476,906, respectively)	266,795,326	215,192,547
Controlled, affiliated investments (cost \$189,639,082 and \$186,290,695, respectively)	112,516,291	125,019,637
Total of investments (cost \$1,400,462,641 and \$1,253,957,146, respectively)	1,325,543,779	1,153,679,675
Cash and cash equivalents (cost \$45,335,225 and \$75,617,133, respectively)	45,340,576	75,608,113
Interest receivable	12,749,323	7,032,858
Prepaid expenses and other assets	1,978,725	2,615,232
<b>Total assets</b>	<b>1,385,612,403</b>	<b>1,238,935,878</b>
<b>Liabilities</b>		
Distributions payable	19,897,034	19,897,034
Payable for investments purchased	50,399,000	
Credit Facility payable (cost \$148,118,700 and \$50,339,700, respectively) (See Notes 5 and 10)	136,122,503	39,551,187
2019 Notes payable (par \$250,000,000) (See Notes 5 and 10)	250,635,000	254,175,000
SBA debentures payable, net (par \$197,500,000) (See Notes 5 and 10)	193,413,169	193,244,534
2025 Notes payable (par \$71,250,000) (See Notes 5 and 10)	71,535,000	72,618,000
Base management fee payable, net (See Note 3)	5,270,817	5,074,830
Performance-based incentive fee payable, net (See Note 3)	2,834,336	2,865,444
Interest payable on debt	6,568,212	7,520,113
Accrued other expenses	1,418,383	622,880
<b>Total liabilities</b>	<b>738,093,454</b>	<b>595,569,022</b>
Commitments and contingencies (See Note 11)		
<b>Net assets</b>		

Common stock, 71,060,836 shares issued and outstanding, respectively			
Par value \$0.001 per share and 100,000,000 shares authorized	71,061		71,061
Paid-in capital in excess of par value	819,983,676		819,983,676
(Distributions in excess of) undistributed net investment income	(1,736,977)		3,119,380
Accumulated net realized loss on investments	(106,967,154)		(84,771,820)
Net unrealized depreciation on investments	(74,907,854)		(100,280,954)
Net unrealized depreciation on debt	11,076,197		5,245,513
<b>Total net assets</b>	\$ 647,518,949	\$	643,366,856
<b>Total liabilities and net assets</b>	\$ 1,385,612,403	\$	1,238,935,878
<b>Net asset value per share</b>	\$ 9.11	\$	9.05

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Investment income:</b>		
From non-controlled, non-affiliated investments:		
Interest	\$ 21,872,130	\$ 28,218,030
Other income	2,102,536	1,667,653
From non-controlled, affiliated investments:		
Interest	4,225,681	2,180,576
Other income	22,500	
From controlled, affiliated investments:		
Interest	3,646,064	3,197,033
<b>Total investment income</b>	<b>31,868,911</b>	<b>35,263,292</b>
<b>Expenses:</b>		
Base management fee (See Note 3)	6,274,782	6,505,780
Performance-based incentive fee (See Note 3)	3,374,210	3,795,782
Interest and expenses on debt (See Note 10)	6,735,574	6,726,325
Administrative services expenses (See Note 3)	894,000	867,500
Other general and administrative expenses	668,507	884,629
<b>Expenses before Management Fees waiver and provision for taxes</b>	<b>17,947,073</b>	<b>18,780,016</b>
Management Fees waiver (See Note 3)	(1,543,839)	(1,648,254)
Provision for taxes	425,000	1,300,000
<b>Net expenses</b>	<b>16,828,234</b>	<b>18,431,762</b>
<b>Net investment income</b>	<b>15,040,677</b>	<b>16,831,530</b>
<b>Realized and unrealized gain (loss) on investments and debt:</b>		
Net realized loss on investments	(22,195,334)	(25,374,963)
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments	19,636,201	(16,742,815)
Non-controlled and controlled, affiliated investments	5,736,899	(23,129,710)
Debt depreciation (See Notes 5 and 10)	5,830,684	7,660,775
<b>Net change in unrealized appreciation (depreciation) on investments and debt</b>	<b>31,203,784</b>	<b>(32,211,750)</b>

<b>Net realized and unrealized gain (loss) from investments and debt</b>	9,008,450	(57,586,713)
<b>Net increase (decrease) in net assets resulting from operations</b>	\$ 24,049,127	\$ (40,755,183)
Net increase (decrease) in net assets resulting from operations per common share (See Note 7)	\$ 0.34	\$ (0.56)
Net investment income per common share	\$ 0.21	\$ 0.23

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net increase (decrease) in net assets from operations:</b>		
Net investment income	\$ 15,040,677	\$ 16,831,530
Net realized loss on investments	(22,195,334)	(25,374,963)
Net change in unrealized appreciation (depreciation) on investments	25,373,100	(39,872,525)
Net change in debt depreciation	5,830,684	7,660,775
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>24,049,127</b>	<b>(40,755,183)</b>
<b>Distributions to stockholders:</b>	<b>(19,897,034)</b>	<b>(20,088,799)</b>
<b>Capital transactions:</b>		
Repurchase of common stock		(8,437,161)
<b>Net increase (decrease) in net assets</b>	<b>4,152,093</b>	<b>(69,281,143)</b>
<b>Net assets:</b>		
Beginning of period	643,366,856	716,590,542
End of period	\$ 647,518,949	\$ 647,309,399
Distributions in excess of net investment income, at end of period	\$ (1,736,977)	\$ (16,682,155)
<b>Capital share activity:</b>		
Shares of common stock repurchased		(1,220,333)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 24,049,127	\$ (40,755,183)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net change in net unrealized (appreciation) depreciation on investments	(25,373,100)	39,872,525
Net change in unrealized depreciation on debt	(5,830,684)	(7,660,775)
Net realized loss on investments	22,195,334	25,374,963
Net accretion of discount and amortization of premium	(938,502)	(1,554,643)
Purchases of investments	(229,234,313)	(130,317,861)
Payment-in-kind income	(2,914,692)	(4,512,413)
Proceeds from dispositions of investments	64,209,266	108,068,736
Amortization of deferred financing costs	168,635	142,975
(Increase) decrease in interest receivable	(5,716,465)	586,198
Decrease in prepaid expenses and other assets	636,507	4,414,695
Increase in payable for investments purchased	50,399,000	8,157,322
Decrease in interest payable on debt	(951,901)	(1,399,934)
Increase (decrease) in management fee payable, net	195,987	(1,137,173)
Decrease in performance-based incentive fee payable, net	(31,108)	(1,819,340)
Increase in accrued other expenses	795,503	1,680,036
Net cash used in operating activities	(108,341,406)	(859,872)
<b>Cash flows from financing activities:</b>		
Repurchase of common stock		(8,437,161)
Distributions paid to stockholders	(19,897,034)	(20,430,492)
Borrowings under Credit Facility	160,260,000	202,316,923
Repayments under Credit Facility	(62,481,000)	(196,185,900)
Net cash provided by (used in) financing activities	77,881,966	(22,736,630)
Net decrease in cash and cash equivalents	(30,459,440)	(23,596,502)
Effect of exchange rate changes on cash	191,903	232,165
Cash and cash equivalents, beginning of period	75,608,113	49,619,256
Cash and cash equivalents, end of period	\$ 45,340,576	\$ 26,254,919

**Supplemental disclosure of cash flow information:**

Interest paid	\$	7,518,840	\$	7,983,284
Taxes paid	\$	86,349	\$	4,760
Non-cash exchanges and conversions	\$	18,026,006	\$	39,438,420

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****DECEMBER 31, 2016****(Unaudited)**

Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>			<b>146.1%<sup>(1), (2)</sup></b>				
<b>Secured Debt</b>			<b>55.4%</b>				
...ing I, LLC	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825	23,273,378	\$ 23,009,381	\$ 23,1...
...Bros., Co., A	06/03/2021	Consumer Products	7.00%	L+575	9,093,750	8,942,169	9,0...
...Bros., Co., B	06/03/2021	Consumer Products	13.50%	L+1,225	9,187,500	9,029,482	9,1...
...lley Tourist ment	01/17/2022	Hotels, Motels, Inns and Gaming	9.00%	L+800	15,000,000	14,625,000	15,0...
...er Sleep s, LLC	10/21/2020	Consumer Products	9.00%	L+800	4,372,074	4,326,685	4,2...
...Specialists,	06/30/2020	Building Materials	9.00%	L+800	24,856,494	24,672,205	24,8...
...Landscaping da, LLC	12/22/2021	Personal, Food and Miscellaneous Services	10.50%	L+950	14,445,000	14,157,343	14,1...
...Landscaping da, LLC (er) <sup>(8)</sup>	12/22/2021	Personal, Food and Miscellaneous Services			3,600,000		
...Solutions L.P.	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	14,522,529	14,277,953	14,2...
...atlantis s, LLC	01/15/2021	Retail	10.00%	L+900	37,898,852	37,422,706	37,8...
...ign Operating y, LLC	01/24/2023	Hotels, Motels, Inns and Gaming	9.25%	L+825	23,800,000	23,324,000	23,9...
...Mineral Corp. <sup>(5)</sup>	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,162,605	13,9...
...haw US Corp.	06/18/2019	Electronics	8.50%	L+700	15,921,316	15,855,578	15,7...
...Defense s, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	37,929,343	37,718,698	36,9...
...Oy, n Saga Oy <sup>(9)</sup> .	07/01/2019	Hotels, Motels, Inns and Gaming	11.50%	L+1,050	38,300,000	39,444,336	39,9...
			(PIK 3.50%)				
	12/28/2020	Manufacturing / Basic Industries	12.02%	L+1,125 <sup>(7)</sup>	27,036,269	26,581,806	27,0...

Manufacturing,							
ns Limited (2)	02/12/2020	Buildings and Real Estate	10.87%	L+1,050 <sup>(7)</sup>	£ 22,083,433	35,343,737	27,2
Acquisition,	08/13/2021	Healthcare, Education and Childcare	10.00%	L+900	8,629,688	8,629,688	8,6
ell Services,	05/02/2019	Oil and Gas	14.11%	L+1,350 <sup>(7)</sup>	15,340,831	15,166,283	13,1
			(PIK 14.11%)				
<b>First Lien Total Debt</b>						366,689,655	358,5
<b>Lien Total Debt 63.3%</b>							
Operating y, LLC	12/12/2023	Electronics	10.50%	L+950	38,800,000	38,125,000	38,1
Capital tion <sup>(12)</sup>	03/04/2022	Financial Services	13.75%		28,500,000	28,263,183	28,5
ouch ts, LLC	10/11/2024	Financial Services	10.50%	L+950	22,500,000	22,104,967	22,1
Berger Co.	09/30/2020	Distribution	11.00%	L+1,000	41,250,000	39,513,616	36,7
mediate rtation 100,	03/01/2017	Cargo Transport	<sup>(6)</sup>		4,887,760	3,739,797	2,9
	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175	51,775,000	51,341,138	50,7
ment, Inc.	10/22/2021	Printing and Publishing	11.50%	L+1,050	26,425,000	25,946,574	26,4
Acquisition,	07/07/2021	Business Services	12.25%	L+1,100	44,625,000	44,114,836	44,6
Buildings Partnership	12/17/2021	Hotels, Motels, Inns and Gaming	13.00%	L+1,200	75,000,000	75,000,000	77,6
l Legal s, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	10.25%	L+900	62,750,000	62,216,097	62,9
er tion Corp.	01/30/2023	Business Services	10.75%	L+975	12,862,500	12,453,113	12,8
olverine s, LLC	10/17/2024	Healthcare, Education and Childcare	10.50%	L+950	6,750,000	6,480,000	6,4
<b>Second Lien Total Debt</b>						409,298,321	410,1
<b>Financed Corporate Debt 17.8%</b>							
ologies, LLC	02/15/2019	Financial Services	13.00%	L+1,200	8,930,000	8,854,997	8,8
e mental LLC	08/20/2021	Environmental Services	12.00%		32,675,553	32,081,286	32,6

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Infonet, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	13.25%		11,089,580	10,877,580	10,7
			(PIK 2.00%)				
Trading (9), (11), (12)	02/19/2018	Healthcare, Education and Childcare	14.50%	L+1,000	£ 8,502,267	12,467,484	10,5
			(PIK 6.00%)				
Reilly, LLC	04/15/2020	Other Media	12.50%		26,500,000	26,612,526	26,3
Holdings, Inc.	05/13/2021	Manufacturing / Basic Industries	11.00%		13,300,000	13,100,184	13,3
s Enterprises,	06/01/2023	Manufacturing / Basic Industries	11.00%		13,300,000	13,037,195	13,0
<b>Subordinated Corporate</b>						117,031,252	115,5
<b>Preferred Partnership (0.8%)</b>							
Holdings, Inc.		Healthcare, Education and Childcare	6.00%		211	500,000	2
		Financial Services			949	949,050	1,1
ologies s Corp.		Electronics	8.00%		2,375	2,088,121	2,4
ologies s, LLC		Other Media	8.00%		3,591		
ldco, LLC		Manufacturing / Basic Industries	9.00%		1,197	1,197,000	1,4
<b>Preferred Partnership</b>						4,734,171	5,2

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2016****(Unaudited)**

<b>Issuer Name</b>	<b>Maturity / Expiration</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value <sup>(3)</sup></b>
<b>Common Equity/Partnership Interests/Warrants 8.8%<sup>(6)</sup></b>							
PH Holdings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare			753	\$	\$
Gegeus Technologies Holdings Corp.		Financial Services			1	950	1,145
SP LCG Holdings, Inc. (Warrants)	05/05/2026	Education			933	586,975	1,349,018
Autumn Games, LLC		Broadcasting and Entertainment			1,333,330	3,000,000	
Cardinal Logistics Holdings LLC (9)		Cargo Transport			137,923	2,111,588	
Intermediate Transportation CO, LLC)							
Cascade Environmental LC <sup>(10)</sup>		Environmental Services			24,382	2,518,909	5,755,707
DI (Galls) Prime Investment Holdings, LLC (9)		Distribution			1,745,639	1,745,639	4,002,115
Convergent Technologies Holdings, LLC		Electronics			2,375		3,044,483
L.f. Beauty, Inc.		Consumer Products			938,399	2,513,193	26,371,234
Paraday Holdings, LLC Interior Specialists,		Building Materials			4,277	217,635	415,322

nc.)							
W Holdco, LC		Other Media			388,378		3,881,630
admon Holdings, Inc.		Healthcare, Education and Childcare			252,014	2,265,639	1,348,275
aMi Acquisition, LC <sup>(10)</sup>		Distribution			19	493,280	532,622
ariat ecoserv o-Invest Holdings, LLC <sup>(9)</sup>		Environmental Services			1,000,000	1,000,000	
MidOcean PPL Holdings, Corp.		Personal, Food and Miscellaneous Services			3,000	3,000,000	7,455,412
Pre-Paid Legal Services, Inc.)							
atriot National, Inc.		Insurance			100,885	238,038	469,115
oto Holdings, Inc.		Manufacturing /Basic Industries			1,330	133,000	1,451,913
S Juniper L.P. Juniper Landscaping of Florida, LLC <sup>(9)</sup>		Personal, Food and Miscellaneous Services			754	754,264	754,264
<b>Total Common Equity/Partnership Interests/Warrants</b>						20,579,110	56,832,255
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						918,332,509	946,232,162
<b>Investments in Non-Controlled, Affiliated Portfolio Companies 41.2%</b>							
<sup>(2)</sup>							
<b>First Lien Secured Debt 10.3%</b>							
American Silsonite Company	12/31/2021	Diversified Natural Resources, Precious Metals and Minerals	15.00%		3,257,511	3,153,140	3,257,511
			(PIK 5.00%)				
ano Health, LC	12/23/2021	Healthcare, Education and Childcare	10.76%	L+1,000	10,260,000	10,005,198	10,003,500
ano Health, LC (Revolver)	12/23/2021	Healthcare, Education and Childcare			900,000		
orfin Industries LLC	11/25/2020	Aerospace and Defense	10.75%	L+975	23,463,000	23,076,650	23,463,000
orfin Industries LLC (Revolver) <sup>(8)</sup>	11/25/2020	Aerospace and Defense			1,942,623		
AS Technologies, Inc.	03/21/2017	Aerospace and Defense	6.01%	L+500	4,437,215	3,906,107	4,437,215
			(PIK 1.00%)				
	04/30/2018	Business Services	12.00%	L+1,050	22,514,911	22,393,383	22,514,911



RAK Acquisition Corp. (Revolver)	08/25/2017	Business Services	12.00%	L+1,050	3,000,000	3,000,000	3,000,000
<b>Total First Lien Secured Debt</b>						65,534,478	66,676,137
<b>Second Lien Secured Debt 4.1%</b>							
ffinion Group, Inc.	10/31/2018	Consumer Products	8.50%	L+700	18,000,000	17,078,401	17,442,000
enviroSolutions Real Property Holdings, Inc.	12/26/2017	Environmental Services	9.00%	L+800	9,409,740	9,321,997	9,409,740
<b>Total Second Lien Secured Debt</b>						26,400,398	26,851,740
<b>Subordinated Debt/Corporate Notes 14.1%</b>							
ffinion International Holdings Limited <sup>(5)</sup> , (12)	07/30/2018	Consumer Products	7.50%		10,055,185	9,265,571	9,652,978
			(PIK 4.00%)				
American Wilsonite Company <sup>(5)</sup>	12/31/2021	Diversified Natural Resources, Precious Metals and Minerals	17.00%		9,407,407	9,407,407	9,407,407
			(PIK 17.00%)				
irectBuy Holdings, Inc.	11/05/2019	Consumer Products	<sup>(6)</sup>		15,177,295	12,340,534	1,669,502
TX Energy, LC, convertible note <sup>(5)</sup>	05/03/2021	Oil and Gas	12.50%		25,297,664	35,876,111	42,500,076
			(PIK 12.50%)				
ervice Champ, Inc.	10/02/2017	Auto Sector	12.50%		28,000,000	27,880,538	27,970,495
<b>Total Subordinated Debt/Corporate Notes</b>						94,770,161	91,200,458
<b>Preferred Equity 0.8%<sup>(6)</sup></b>							
AS International Holdings, Inc.		Aerospace and Defense			53,071	20,059,340	5,254,029
<b>Common Equity/Partnership Interests/Warrants 11.9%<sup>(6)</sup></b>							
ffinion Group Holdings, Inc.		Consumer Products			859,496	30,503,493	33,758,336
ffinion Group Holdings, Inc., Series C and Series D		Consumer Products			37,181	10,265,972	247,769

American Wilsonite Company	Diversified Natural Resources, Precious Metals and Minerals	25,400	5,465,627	5,465,627
Corfin InvestCo, L.P.	Aerospace and Defense	11,250	1,125,000	2,606,202
Corfin InvestCo, L.P. )	Aerospace and Defense	11,250		

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2016****(Unaudited)**

<b>Issuer Name</b>	<b>Maturity / Expiration</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value <sup>(3)</sup></b>
DirectBuy Holdings,		Consumer Products			104,719	\$ 21,492,822	\$
DirectBuy Holdings,	11/05/2022	Consumer Products			15,486		
(Warrants)							
ViroSolutions Holdings, Inc.		Environmental Services			143,668	11,960,702	13,350,93
EX Energy, LLC		Oil and Gas			113,610		3,080,59
EX Energy Management Company, LLC <sup>(10)</sup>		Oil and Gas			119,603		162,15
EC Rumba, LLC (no Health, LLC)		Healthcare, Education and Childcare			180,000	1,800,000	1,800,00
Law Service Champ Holdings, Inc.		Auto Sector			16,800	2,721,600	7,567,26
AS International Holdings, Inc.		Aerospace and Defense			53,071	202,620	5,832,53
PAK Acquisition Corp.		Business Services			491,755	188,837	2,941,55
<b>Total Common Equity/Partnership Interests/Warrants</b>						<b>85,726,673</b>	<b>76,812,96</b>
<b>Total Investments in Non-Controlled, Affiliated Portfolio Companies</b>						<b>292,491,050</b>	<b>266,795,32</b>
<b>Investments in Controlled, Affiliated Portfolio Companies 17.4%<sup>(1), (2)</sup></b>							
<b>First Lien Secured Debt 15.0%</b>							
EM Energy LLC	07/18/2019	Energy and Utilities	10.00%	L+800	86,744,720	85,875,642	70,480,08
			(PIK 10.00%)				
Superior Digital Plays, LLC	12/31/2018	Media	14.00%	L+1,300	26,516,321	24,942,081	26,516,32
			(PIK 14.00%)				

<b>Total First Lien Secured Debt</b>						110,817,723	96,996,400
<b>Second Lien Secured Debt 0.9%</b>							
Superior Digital Displays, LLC	07/01/2019	Media	16.00%	L+1,500	6,105,815	6,105,815	5,920,160
(PIK 16.00%)							
<b>Preferred Equity 1.5%<sup>(6)</sup></b>							
MidOcean JF Holdings Corp.		Distribution			143,183	14,318,325	9,599,720
Superior Digital Displays Holdings, LLC		Media	15.00%		224,282	10,600,000	
<b>Total Preferred Equity</b>						24,918,325	9,599,720
<b>Common Equity 0.0%<sup>(6)</sup></b>							
MidOcean JF Holdings Corp.		Distribution			65,933	24,761,831	
MidEnergy Holdings LLC		Energy and Utilities			23,141	20,824,388	
Superior Digital Displays Holdings, LLC		Media			11,100	2,211,000	
<b>Total Common Equity</b>						47,797,219	
<b>Total Investments in Controlled, Affiliated Portfolio Companies</b>						189,639,082	112,516,290
<b>Total Investments 204.7%</b>							
<b>Cash and Cash Equivalents 7.0%</b>							
BankRock Federal Instl 30						9,893,987	9,893,987
Wells Fargo Mellon Cash Reserve and Cash						35,441,238	35,446,580
<b>Total Cash and Cash Equivalents</b>						45,335,225	45,340,567
<b>Total Investments and Cash Equivalents 211.7%</b>						\$ 1,445,797,866	\$ 1,370,884,350
<b>Liabilities in Excess of Other Assets (111.7%)</b>							(723,365,400)

t Assets 100.0%

\$ 647,518,94

- (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 our Taxable Subsidiaries (See Note 1).
- (11) Par amount is denominated in British Pounds (£) or in Euros (€) as denoted.
- (12) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2016

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio</b>							
<b>Companies 126.4%<sup>(1), (2)</sup></b>							
<b>First Lien Secured Debt 38.7%</b>							
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. <sup>(5)</sup>	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 <sup>(7)</sup>	28,859,421	28,349,720	28,859,421
Trust Inns Limited <sup>(9), (11), (12)</sup>	02/12/2020	Buildings and Real Estate	10.88%	L+1,050 <sup>(7)</sup>	£ 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
	05/02/2019	Oil and Gas	14.02%		14,988,321	14,796,715	12,912,527

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

U.S. Well  
Services, LLC

(PIK 14.02%) L+1,350<sup>(7)</sup>

<b>Total First Lien Secured Debt</b>					258,288,303	249,033,317	
<b>Second Lien Secured Debt 61.0%</b>							
American Gilsonite Company <sup>(5)</sup>	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	<sup>(6)</sup>		25,400,000	25,400,000	17,780,000
Balboa Capital Corporation <sup>(12)</sup>	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	<sup>(6)</sup>		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 <sup>(5)</sup>	03/01/2017	Cargo Transport	<sup>(6)</sup>		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 <sup>(9)</sup> , <sup>(12)</sup>	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
<b>Total Second Lien Secured</b>					416,812,665	392,831,328	

**Debt**

<b>Subordinated Debt/Corporate Notes 15.9%</b>							
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%		11,035,083	10,937,329	10,538,501
			(PIK 1.75%)				
Goldsun Trading Limited <sup>(9), (11), (12)</sup>	02/19/2018	Healthcare, Education and Childcare	14.50%	L+1,000	£ 8,375,600	12,306,414	10,855,976
			(PIK 6.00%)				
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

<b>Total Subordinated Debt/Corporate Notes</b>						103,851,033	102,510,981
--	--	--	--	--	--	-------------	-------------

**Preferred Equity/Partnership Interests 0.8%<sup>(6)</sup>**

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

<b>Total Preferred Equity/Partnership Interests</b>						4,734,171	5,044,402
---	--	--	--	--	--	-----------	-----------





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

	<b>Maturity / Expiration</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(4)</sup></b>	<b>Par / Shares</b>
<b>Ownership Interests/Warrants</b>	<b>10.0%</b> <sup>(6)</sup>				
( )	03/23/2021	Healthcare, Education and Childcare			753 \$
ings Corp.		Financial Services			1
arrants)	05/05/2026	Education			933
		Broadcasting and Entertainment			1,333,330
LLC <sup>(10)</sup>		Cargo Transport			137,923
100, LLC)		Environmental Services			23,600
<sup>(10)</sup>		Distribution			1,745,639
Holdings, LLC <sup>(10)</sup>		Electronics			2,375
ldings, LLC		Consumer Products			938,399
rior Specialists, Inc.)		Building Materials			4,277
		Other Media			388,378
		Healthcare, Education and Childcare			252,014
		Distribution			19
dings, LLC <sup>(10)</sup>		Environmental Services			1,000,000
rp.		Personal, Food and Miscellaneous Services			3,000
(.)		Insurance			100,885
LC, Class A Units <sup>(10)</sup>		Electronics			1,350,000
LC, Class B Units <sup>(10)</sup>		Electronics			150,000
		Manufacturing / Basic Industries			1,330
c.		Printing and Publishing			211,797
<b>Partnership Interests/Warrants</b>					
<b>Controlled, Non-Affiliated Portfolio Companies</b>					
<b>Controlled, Affiliated Portfolio Companies 33.5%</b> <sup>(1), (2)</sup>					
<b>3%</b>					
	11/25/2020	Aerospace and Defense	10.75%	L+975	23,522,250
lver) <sup>(8)</sup>	11/25/2020	Aerospace and Defense			1,942,623
	03/21/2017	Aerospace and Defense	6.01%	L+500	4,434,295
			(PIK 1.00%)		
	04/30/2018	Business Services	12.00%	L+1,050	22,764,911

evolver)	11/22/2016	Business Services	12.00%	L+1,050	3,000,000
----------	------------	-------------------	--------	---------	-----------

**Debt****3.9%**

	10/31/2018	Consumer Products	8.50%	L+700	18,000,000
ty Holdings, Inc.	12/26/2017	Environmental Services	9.00%	L+800	9,409,740

**Debt****ate Notes 11.7%**

gs Limited <sup>(5), (9), (12)</sup>	07/30/2018	Consumer Products	7.50%		9,858,025
			(PIK 4.00%)		
	11/05/2019	Consumer Products	<sup>(6)</sup>		14,735,238
v Gulf Resources, LLC),	05/03/2021	Oil and Gas	12.50%		25,297,664
			(PIK 12.50%)		
	10/02/2017	Auto Sector	12.50%		28,000,000

**Corporate Notes**

Inc.		Aerospace and Defense			53,071
------	--	-----------------------	--	--	--------

**ip Interests/Warrants 8.9%<sup>(6)</sup>**

c.		Consumer Products			859,496
c., Series C and Series D		Consumer Products			37,181
		Aerospace and Defense			11,250
		Aerospace and Defense			11,250
		Consumer Products			104,719
warrants)	11/05/2022	Consumer Products			15,486
nc.		Environmental Services			143,668
v Gulf Resources, LLC) <sup>(10)</sup>		Oil and Gas			113,610
ompany, LLC (f/k/a NGR		Oil and Gas			119,603
) <sup>(10)</sup>					
s, Inc.		Auto Sector			16,800
nc.		Aerospace and Defense			53,071
		Business Services			491,755

**nership Interests/Warrants****Controlled, Affiliated Portfolio Companies**

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Table of Contents

## 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 <sup>(4)</sup>	Par / Shares	Cost	Fair Value <sup>(3)</sup>
<b>Investments in Controlled, Affiliated Portfolio Companies 19.4%<sup>(1), (2)</sup></b>							
<b>First Lien Secured Debt 14.7%</b>							
RAM Energy LLC	07/18/2019	Energy and Utilities	10.00%	L+800	84,606,067	\$ 83,653,689	\$ 68,319,399
			(PIK 10.00%)				
Superior Digital Displays, LLC	12/31/2018	Media	14.00%	L+1,300	26,516,321	24,845,647	26,516,321
			(PIK 14.00%)				
<b>Total First Lien Secured Debt</b>						108,499,336	94,835,720
<b>Second Lien Secured Debt 1.2%</b>							
Superior Digital Displays, LLC	07/01/2019	Media	16.00%	L+1,500	8,675,815	8,675,815	7,346,315
			(PIK 16.00%)				
<b>Preferred Equity 3.1%<sup>(6)</sup></b>							
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	
<b>Total Preferred Equity</b>						21,318,325	20,151,529
<b>Common Equity 0.4%<sup>(6)</sup></b>							
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
<b>Total Common Equity</b>			47,797,219
<b>Total Investments in Controlled, Affiliated Portfolio Companies</b>			186,290,695
<b>Total Investments 179.3%</b>		1,253,957,146	1,153,679,675
<b>Cash and Cash Equivalents 11.8%</b>			
BlackRock Liquidity Funds, Temp Cash, Institutional Shares			64,897,736
BNY Mellon Cash Reserve and Cash			10,719,397
<b>Total Cash and Cash Equivalents</b>			75,617,133
<b>Total Investments and Cash Equivalents 191.1%</b>		\$ 1,329,574,279	\$ 1,229,287,788
<b>Liabilities in Excess of Other Assets (91.1%)</b>			(585,920,932)
<b>Net Assets 100.0%</b>			\$ 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 LIBOR or L, or Prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK, interest and other fee rates, if any.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-income producing securities.
- (7) Coupon is not subject to a LIBOR or Prime rate floor.
- (8) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (9) Non-U.S. company or principal place of business outside the U.S.

- (10) Investment is held through our consolidated Taxable Subsidiaries (See Note 1).
- (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

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**(Unaudited)**

**1. ORGANIZATION**

PennantPark Investment Corporation was organized as a Maryland corporation in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. PennantPark Investment's objective is to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments. We invest primarily in U.S. middle-market companies in the form of 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 New York Stock Exchange, or the NYSE, under the symbol PNTA.

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

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

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



serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

Our Consolidated Financial Statements are prepared in accordance with GAAP, consistent with ASC 946, Financial Services Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and 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 may not be readily available market values for many of our investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this Report. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material. See Note 5.

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

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

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

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2016**

**(Unaudited)**

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

***(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 collectible. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount, or OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

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 generally do not incur federal income taxes as a RIC for federal income tax purposes, we may elect to retain a portion of our calendar year income, which may result in an excise tax, or we may incur taxes through our Taxable Subsidiaries. For the three months ended December 31, 2016 and 2015, we recorded a provision for taxes of \$0.4 million and \$1.3 million, respectively.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax positions not considered to satisfy the more-likely-than-not threshold would be recorded as a tax expense or benefit. 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 gain recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

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

Distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid, if any, as a distribution is 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.

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2016**

**(Unaudited)**

***(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 2017. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us, consisting of two components—a base management fee and an incentive fee, or collectively referred to as Management Fees.

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets, which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. Since December 31, 2015 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to waive 16% of base management fees, correlated to our 16% energy cost exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2016 and 2015, the Investment Adviser earned a base management fee of \$5.3 million (after a waiver of \$1.0 million) and \$5.5 million (after a waiver of \$1.0 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. Since December 31, 2015 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 cost exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2016 and 2015, the Investment Adviser earned an incentive fee of \$2.9 million (after a waiver of \$0.5 million) and \$3.2 million (after a waiver of \$0.6 million), respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For each of the three months ended December 31, 2016 and 2015, 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 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, if any, will be realized in the future. For each of the three months ended December 31, 2016 and 2015, the Investment Adviser did not accrue such an incentive fee.

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 2017. 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 three months ended December 31, 2016 and 2015, the Investment Adviser was reimbursed \$0.5 million and \$0.3 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above.



**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2016****(Unaudited)****4. INVESTMENTS**

Purchases of investments, including PIK interest, for the three months ended December 31, 2016 and 2015 totaled \$232.1 million and \$134.8 million, respectively. Sales and repayments of investments for the same periods totaled \$64.2 million and \$108.1 million, respectively. For the three months ended December 31, 2016, the Company bought \$5.0 million in total investments from an affiliated fund managed by our Investment Adviser in accordance with, and pursuant to procedures adopted under, Rule 17a-7 of the 1940 Act. The affiliated fund realized a gain of less than \$0.1 million.

Investments, cash and cash equivalents consisted of the following:

<b>Investment Classification</b>	<b>December 31, 2016</b>		<b>September 30, 2016</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
First lien	\$ 543,041,856	\$ 522,190,511	\$ 418,873,576	\$ 397,102,721
Second lien	441,804,534	442,872,294	451,756,995	425,412,443
Subordinated debt / corporate notes	211,801,413	206,702,440	189,453,101	177,631,517
Equity	203,814,838	153,778,534	193,873,474	153,532,994
<b>Total investments</b>	<b>1,400,462,641</b>	<b>1,325,543,779</b>	<b>1,253,957,146</b>	<b>1,153,679,675</b>
Cash and cash equivalents	45,335,225	45,340,576	75,617,133	75,608,113
<b>Total investments, cash and cash equivalents</b>	<b>\$ 1,445,797,866</b>	<b>\$ 1,370,884,355</b>	<b>\$ 1,329,574,279</b>	<b>\$ 1,229,287,788</b>

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

<b>Industry Classification</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Hotels, Motels, Inns and Gaming	17%	13%
Consumer Products	8	9
	7	8

Edgar Filing: PENNANTPARK INVESTMENT CORP - Form 10-Q

Personal, Food and Miscellaneous Services		
Aerospace and Defense	6	5
Business Services	6	7
Energy and Utilities	5	6
Environmental Services	5	5
Financial Services	5	3
Distribution	4	6
Electronics	4	2
Manufacturing / Basic Industries	4	4
Oil and Gas	4	5
Auto Sector	3	3
Healthcare, Education and Childcare	3	2
Retail	3	3
Buildings and Real Estate	2	2
Building Materials	2	2
Media	2	5
Other Media	2	3
Printing and Publishing	2	3
Diversified Natural Resources, Precious Metals and Minerals	1	
Other	5	4
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2016**

**(Unaudited)**

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

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

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

may be used in pricing an asset.

Our investments are generally structured as debt and equity investments in the form of 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 valued using unobservable inputs are included in Level 3 of the fair value hierarchy.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the three months ended December 31, 2016 and 2015, our ability to observe valuation inputs resulted in no reclassifications and one reclassification of an asset from Level 2 to 1, respectively.

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.

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 typically 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. Generally, an increase in a market yield will result in a decrease in the valuation of a debt investment, while a decrease in a market yield will have the opposite effect. Generally, an increase in an EBITDA multiple will result in an increase in the valuation of an investment, while a decrease in an EBITDA will have the opposite effect.

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2016****(Unaudited)**

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

Asset Category	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)	
Senior lien	\$ 126,200,242	Market Comparable	Broker/Dealer bids or quotes	N/A	
Subordinated lien	159,739,313	Market Comparable	Broker/Dealer bids or quotes	N/A	
Subordinated debt / corporate notes	9,652,978	Market Comparable	Broker/Dealer bids or quotes	N/A	
Senior lien	395,990,269	Market Comparable	Market Yield	9.8%	18.0% (13.0%)
Subordinated lien	296,166,981	Market Comparable	Market Yield	9.6%	18.0% (13.0%)
Subordinated debt / corporate notes	184,015,462	Market Comparable	Market Yield	11.0%	18.6% (10.0%)
Equity	125,589,910	Enterprise Market Value	EBITDA multiple	5.5x	15.5x (8.8x)
Level 3 investments	\$ 1,297,355,155				
Long-Term Credit Facility	\$ 136,122,503	Market Comparable	Market Yield	3.7%	

Asset Category	Fair Value at September 30, 2016	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)	
Senior lien	\$ 35,569,934	Market Comparable	Broker/Dealer bids or quotes	N/A	
Subordinated lien	122,923,804	Market Comparable	Broker/Dealer bids or quotes	N/A	
Subordinated debt / corporate notes	8,995,448	Market Comparable	Broker/Dealer bids or quotes	N/A	
Senior lien	361,532,787	Market Comparable	Market Yield	8.8%	21.7% (13.0%)
Subordinated lien	302,488,639	Market Comparable	Market Yield	9.5%	17.3% (13.0%)
Subordinated debt / corporate notes	168,636,069	Market Comparable	Market Yield	11.0%	15.7% (10.0%)
Equity	125,633,017	Enterprise Market Value	EBITDA multiple	5.0x	15.5x (8.2x)
Level 3 investments	\$ 1,125,779,698				
Long-Term Credit Facility	\$ 39,551,187	Market Comparable	Market Yield	3.8%	

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

Description	Fair Value	Fair Value at December 31, 2016		
		Level 1	Level 2	Level 3
Debt investments	\$ 1,171,765,245	\$	\$	\$ 1,171,765,245
Equity investments	153,778,534	1,817,390	26,371,234	125,589,910
Total investments	1,325,543,779	1,817,390	26,371,234	1,297,355,155
Cash and cash equivalents	45,340,576	45,340,576		
Total investments, cash and cash equivalents	\$ 1,370,884,355	\$ 47,157,966	\$ 26,371,234	\$ 1,297,355,155
Long-Term Credit Facility	\$ 136,122,503	\$	\$	\$ 136,122,503
2019 Notes	250,635,000		250,635,000	
2025 Notes	71,535,000	71,535,000		
Total debt	\$ 458,292,503	\$ 71,535,000	\$ 250,635,000	\$ 136,122,503

Description	Fair Value	Fair Value at September 30, 2016		
		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

**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2016****(Unaudited)**

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

<b>Description</b>	<b>Three Months Ended December 31, 2016</b>		
	<b>Debt investments</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning Balance	\$ 1,000,146,681	\$ 125,633,017	\$ 1,125,779,698
Net realized (losses) gains	(34,173,159)	11,800,414	(22,372,745)
Net unrealized appreciation (depreciation)	35,054,433	(9,984,472)	25,069,961
Purchases, PIK interest, net discount accretion and non-cash exchanges	226,774,334	11,778,800	238,553,134
Sales, repayments and non-cash exchanges	(56,037,044)	(13,637,849)	(69,674,893)
Transfers in/out of Level 3			
<b>Ending Balance</b>	<b>\$ 1,171,765,245</b>	<b>\$ 125,589,910</b>	<b>\$ 1,297,355,155</b>

Net change in unrealized appreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$ 11,161,106	\$ 252,650	\$ 11,413,756
--	---------------	------------	---------------

<b>Description</b>	<b>Three Months Ended December 31, 2015</b>		
	<b>Debt investments</b>	<b>Equity investments</b>	<b>Totals</b>
Beginning Balance	\$ 1,194,257,869	\$ 103,169,586	\$ 1,297,427,455
Net realized (losses) gains	(27,123,807)	1,691,446	(25,432,361)
Net unrealized depreciation	(35,926,407)	(3,177,458)	(39,103,865)
Purchases, PIK interest, net discount accretion and non-cash exchanges	104,756,425	31,628,493	136,384,918
Sales, repayments and non-cash exchanges	(104,127,278)	(3,941,446)	(108,068,724)
Transfers in/out of Level 3			
<b>Ending Balance</b>	<b>\$ 1,131,836,802</b>	<b>\$ 129,370,621</b>	<b>\$ 1,261,207,423</b>
	\$ (59,533,459)	\$ 2,796,027	\$ (56,737,432)

Net change in unrealized (depreciation) appreciation reported within the net change in unrealized (depreciation) appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.

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

<b>Long-Term Credit Facility</b> <sup>(1)</sup>	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Beginning Balance (cost \$50,339,700 and \$106,864,300, respectively)	\$ 39,551,187	\$ 102,356,860
Net change in unrealized depreciation included in earnings	(1,207,684)	(3,805,775)
Borrowings <sup>(2)</sup>	110,260,000	126,316,923
Repayments <sup>(2)</sup>	(12,481,000)	(105,185,900)
Transfers in and/or out of Level 3		
Ending Balance (cost \$148,118,700 and \$127,995,323, respectively)	\$ 136,122,503	\$ 119,682,108
Temporary draws outstanding, at cost		15,000,000
Ending Balance (cost \$148,118,700 and \$142,995,323, respectively)	\$ 136,122,503	\$ 134,682,108

(1) The carrying value of our consolidated financial liabilities approximates fair value.

(2) Excludes temporary draws.

As of December 31, 2016, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

<b>Foreign Currency</b>	<b>Amount Borrowed</b>	<b>Borrowing Cost</b>	<b>Current Value</b>	<b>Reset Date</b>	<b>Change in Fair Value</b>
British Pound	£ 30,000,000	\$ 48,858,700	\$ 37,069,530	January 3, 2017	\$ (11,789,170)
Euro	44,000,000	45,760,000	46,409,088	January 3, 2017	649,088
		\$ 94,618,700	\$ 83,478,618		\$ (11,140,082)

As of September 30, 2016, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

<b>Foreign Currency</b>	<b>Amount Borrowed</b>	<b>Borrowing Cost</b>	<b>Current Value</b>	<b>Reset Date</b>	<b>Change in Fair Value</b>
British Pound	£ 31,000,000	\$ 50,339,700	\$ 40,180,433	October 3, 2016	\$ (10,159,267)



**Table of Contents****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2016****(Unaudited)**

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. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three months ended December 31, 2016 and 2015, our Credit Facility and our Notes had a net change in unrealized depreciation of \$5.8 million and \$7.7 million, respectively. As of December 31, 2016 and September 30, 2016, net unrealized depreciation on our Credit Facility and our Notes totaled \$11.1 million and \$5.2 million, respectively. We use a nationally recognized independent valuation service to fair value of our Credit Facility and our 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 three months ended December 31, 2016 were as follows:

Name of Investment	Fair Value at September 30, 2016 <sup>(1)</sup>	Purchases of / Advances to Affiliates <sup>(1), (2)</sup>	Sale of / Distributions from Affiliates <sup>(1)</sup>	Income Accrued	Fair Value at December 31, 2016 <sup>(1)</sup>	Net Realized Gains (Losses)
<b>Controlled Affiliates</b>						
MidOcean JF Holdings Corp. (JF Acquisition, LLC)	\$ 22,837,602	\$	\$	\$	\$ 9,599,721	\$
RAM Energy LLC	68,319,399	2,138,653		2,264,465	70,480,085	
Superior Digital Displays Holdings, Inc.	33,862,636	3,600,000	(2,570,000)	1,381,599	32,436,485	

**Non-Controlled Affiliates**

Affinion Group Holdings, Inc.	57,109,394	197,160		817,473	61,101,083
American Gilsonite Company <sup>(3)</sup>				5,969	18,130,545
Cano Health, LLC <sup>(3)</sup>		11,803,500		52,311	11,803,500
Corfin Industries LLC	25,853,063		(59,250)	675,462	26,069,202
DirectBuy Holdings, Inc.	2,799,695				1,669,502
EnviroSolutions Holdings, Inc.	22,522,000			230,873	22,760,675
ETX Energy, LLC	35,416,730			193,544	45,742,822
PAS International Holdings, Inc.	8,233,630	14,052	(11,132)	616,258	15,523,777
Service Champ, Inc.	34,898,025			913,797	35,537,758
TRAK Acquisition Corp.	28,360,010	9,000,000	(9,250,000)	742,494	28,456,462

**Total Controlled and**

**Non-Controlled Affiliates**    \$ 340,212,184    \$ 26,753,365    \$ (11,890,382)    \$ 7,894,245    \$ 379,311,617    \$

(1) Excludes delayed draw investments.

(2) Includes PIK.

(3) Became a non-controlled affiliate during the three months ended December 31, 2016.

**7. CHANGE IN NET ASSETS RESULTING FROM OPERATIONS PER COMMON SHARE**

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

	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Numerator for net increase (decrease) in net assets resulting from operations	\$ 24,049,127	\$ (40,755,183)
Denominator for basic and diluted weighted average shares	71,060,836	72,740,547
Basic and diluted net increase (decrease) in net assets resulting from operations per share	\$ 0.34	\$ (0.56)

**8. CASH AND CASH EQUIVALENTS**

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

valuation policy. As of December 31, 2016 and September 30, 2016, cash and cash equivalents consisted of \$45.3 million and \$75.6 million, respectively, at fair value.

Table of Contents

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2016**

**(Unaudited)**

**9. FINANCIAL HIGHLIGHTS**

Below are the financial highlights:

	<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 9.05	\$ 9.82
Net investment income <sup>(1)</sup>	0.21	0.23
Net realized and unrealized gain (loss) <sup>(1)</sup>	0.13	(0.79)
Net increase (decrease) in net assets resulting from operations <sup>(1)</sup>	0.34	(0.56)
Distributions to stockholders <sup>(1), (2)</sup>	(0.28)	(0.28)
Repurchase of common stock <sup>(1)</sup>		0.04
Net asset value, end of period	\$ 9.11	\$ 9.02
Per share market value, end of period	\$ 7.66	\$ 6.18
Total return* <sup>(3)</sup>	5.51%	(0.28)%
Shares outstanding at end of period	71,060,836	71,745,710
<b>Ratios**/ Supplemental Data:</b>		
Ratio of operating expenses to average net assets <sup>(4), (5)</sup>	6.23%	6.13% <sup>(6)</sup>
Ratio of interest and expenses on debt to average net assets	4.15%	3.84%
Ratio of total expenses to average net assets <sup>(5)</sup>	10.38%	9.97% <sup>(6)</sup>
Ratio of net investment income to average net assets	9.28%	10.17% <sup>(6)</sup>
Net assets at end of period	\$ 647,518,949	\$ 647,309,399

Weighted average debt outstanding (7)	\$	597,533,598	\$	598,313,633
Weighted average debt per share <sup>(1)</sup> , (7)	\$	8.41	\$	8.23
Asset coverage per unit <sup>(8)</sup>	\$	2,412	\$	2,422
Portfolio turnover ratio		21.20%		34.28%

\* Not annualized for periods less than one year.

\*\* Annualized for periods less than one year.

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

(2) The tax status of distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP, and reported on Form 1099-DIV each calendar year.

(3) Based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.

(4) Excludes debt related costs.

(5) For the three months ended December 31, 2016 and 2015, the ratio of operating expenses before the waiver of Management Fees to average net assets was 7.18% and 7.07%, respectively, and the ratio of total expenses before the waiver of Management Fees to average net assets was 11.33% and 10.91%, respectively.

(6) Does not annualize provision for taxes.

(7) Includes SBA debentures outstanding.

(8) The asset coverage ratio for a class of senior securities representing indebtedness is calculated on our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by the senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the asset coverage per unit. These amounts exclude SBA debentures from our asset coverage per unit computation pursuant to an exemptive relief letter provided by the SEC in June 2011.

## 10. DEBT

Our annualized weighted average cost of debt for the three months ended December 31, 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 4.51% and 4.50%, respectively. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing, excluding SBA debentures, pursuant to exemptive relief from the SEC received in June 2011.

***Credit Facility***

As of December 31, 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 December 31, 2016 and September 30, 2016, there was \$148.1 million and \$50.3 million, respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate of 2.63% and 2.76%, as of December 31, 2016 and September 30, 2016, respectively, excluding the undrawn commitments fees 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.

**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2016**

**(Unaudited)**

**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 December 31, 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 as part of a group of SBICs under common control may borrow a maximum of \$350.0 million in the aggregate.

As of December 31, 2016 and September 30, 2016, our SBIC Funds had \$225.0 million in debt commitments, of which \$197.5 million was drawn, respectively. As of December 31, 2016 and September 30, 2016, the unamortized fees on the SBA debentures was \$4.1 million and \$4.3 million, respectively. The SBA debentures upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures as of December 31, 2016 and September 30, 2016 were as follows:

Issuance Dates	Maturity	Fixed All-in	
		coupon rate <sup>(1)</sup>	Principal Balance
September 22, 2010	September 1, 2020	3.50%	\$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000
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

<sup>(1)</sup> Excludes 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of December 31, 2016, our SBIC Funds were in compliance with their regulatory requirements.

### **2019 Notes**

As of December 31, 2016 and September 30, 2016, we had \$250.0 million in aggregate principal amount of 2019 Notes outstanding. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

### **2025 Notes**

As of December 31, 2016 and September 30, 2016, we had \$71.3 million in aggregate principal amount of 2025 Notes outstanding. 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.

## **11. COMMITMENTS AND CONTINGENCIES**

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt and equity investments, if any, are disclosed in the Consolidated Schedules of Investments. As of December 31, 2016 and September 30, 2016, we had \$7.6 million and \$3.1 million, respectively, in commitments to fund investments.

## **12. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES**

We must determine which, if any, of our unconsolidated controlled portfolio companies is a significant subsidiary within the meaning of Regulation S-X. We have determined that, as of December 31, 2016 and 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 December 31, 2016 and September 30, 2016 as well as for the three months ended December 31, 2016 and 2015.

<b>Balance Sheet</b>	<b>December 31, 2016</b>		<b>September 30, 2016</b>	
Current assets	\$	1,699,593	\$	1,871,645
Noncurrent assets		29,503,764		35,306,598
Current liabilities		6,410,604		4,338,002
Noncurrent liabilities		91,208,666		90,737,483





**Table of Contents**

**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2016**

**(Unaudited)**

	<b>Three Months Ended December 31,</b>	
<b>Income Statement</b>	<b>2016</b>	<b>2015</b>
Total revenue	\$ 1,828,378	\$ 2,402,530
Total expenses	10,347,049	28,237,445
Net loss	(8,518,671)	(25,834,915)

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

We have reviewed the accompanying consolidated statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries (collectively referred to as the Company ), including the consolidated schedule of investments, as of December 31, 2016, and the consolidated statements of operations, changes in net assets and cash flows for the three months ended December 31, 2016 and 2015. These consolidated financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated statement of assets and liabilities of the Company, including the consolidated schedule of investments, as of September 30, 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 21, 2016, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated statements of assets and liabilities as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated statements of assets and liabilities.

/s/ RSM US LLP

New York, New York

February 8, 2017

**Table of Contents**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FORWARD-LOOKING STATEMENTS**

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

our future operating results;

our business prospects and the prospects of our prospective portfolio companies;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the impact of a protracted decline in the liquidity of credit markets on our business;

the impact of investments that we expect to make;

the impact of fluctuations in interest rates and foreign exchange rates on our business and our portfolio companies;

our contractual arrangements and relationships with third parties;

the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

the ability of our prospective portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our prospective portfolio companies;

the impact of price and volume fluctuations in the stock market;

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

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

the impact of European sovereign debt, Brexit and other world economic and political issues.

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

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

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

You should understand that under Section 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, or the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

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

### *Overview*

PennantPark Investment Corporation is a BDC whose objectives are to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments primarily made to U.S. middle-market companies in the form of 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.

## **Table of Contents**

### ***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 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.

---

**Table of Contents****PORTFOLIO AND INVESTMENT ACTIVITY**

As of December 31, 2016, our portfolio totaled \$1,325.5 million and consisted of \$522.2 million of senior secured debt, \$442.9 million of second lien secured debt, \$206.7 million of subordinated debt and \$153.7 million of preferred and common equity. Our debt portfolio consisted of 81% variable-rate investments (including 74% with a floor) and 19% fixed-rate investments. As of December 31, 2016, we had two companies on non-accrual, representing 1.1% and 0.3% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$74.9 million as of December 31, 2016. Our overall portfolio consisted of 60 companies with an average investment size of \$22.1 million, had a weighted average yield on interest bearing debt investments of 11.9% and was invested 39% in senior secured debt, 33% in second lien secured debt, 16% in subordinated debt and 12% in preferred and common equity.

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 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.

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

For the three months ended December 31, 2015, we invested \$130.3 million in four new and six existing portfolio companies with a weighted average yield on debt investments of 11.9%. Sales and repayments of investments for the three months ended December 31, 2015 totaled \$108.1 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 the ASC serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

***Investment Valuations***

We expect that there may not be readily available market values for many of 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 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 our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

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

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 date.

---

**Table of Contents**

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

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

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

In addition to using the above inputs in cash equivalents, investments, our 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. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three months ended December 31, 2016 and 2015, our Credit Facility and our Notes had a net change in unrealized depreciation of \$5.8 million and \$7.7 million, respectively. As of December 31, 2016 and September 30, 2016, net unrealized depreciation on our Credit Facility and our Notes totaled \$11.1 million and \$5.2 million, respectively. We use a nationally recognized independent valuation service to fair value of our Credit Facility and our 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 collectible. 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 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.

### ***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. For us to maintain our ability to be treated as 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 dividends for U.S. federal income tax purposes to our

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

## **Table of Contents**

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

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

## **RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three months ended December 31, 2016 and 2015.

### ***Investment Income***

Investment income for the three months ended December 31, 2016 was \$31.9 million and was attributable to \$13.2 million from senior secured debt, \$12.7 million from second lien secured debt, \$4.9 million from subordinated debt and \$1.1 million from preferred and common equity, respectively. Investment income for the three months ended December 31, 2015 was \$35.3 million and was attributable to \$12.9 million from senior secured debt, \$17.4 million from second lien secured debt and \$5.0 million from subordinated debt, respectively. The decrease in investment income compared with the same period in the prior year was primarily due to a lower yielding portfolio.

### ***Expenses***

Net expenses for the three months ended December 31, 2016 totaled \$16.8 million. Base management fee for the same period totaled \$5.3 million (after a base management fee waiver of \$1.0 million), incentive fee totaled \$2.9 million (after an incentive fee waiver of \$0.5 million), debt related interest and expenses totaled \$6.7 million, general and administrative expenses totaled \$1.5 million and provision for taxes totaled \$0.4 million. Net expenses for the three months ended December 31, 2015 totaled \$18.4 million. Base management fee for the same period totaled \$5.5 million (after a base management fee waiver of \$1.0 million), incentive fee totaled \$3.2 million (after an incentive fee waiver of \$0.6 million), debt related interest and expenses totaled \$6.7 million, general and administrative expenses totaled \$1.7 million and provision for taxes totaled \$1.3 million. The decrease in expenses compared with the same period in the prior year was primarily due to lower taxes.

### ***Net Investment Income***

Net investment income totaled \$15.0 million, or \$0.21 per share, for the three months ended December 31, 2016, and \$16.8 million, or \$0.23 per share, for the three months ended December 31, 2015. The decrease in net investment income compared to the same period in the prior year was primarily due to the lower yielding portfolio.

### ***Net Realized Gains or Losses***

Sales and repayments of investments for the three months ended December 31, 2016 totaled \$64.2 million and realized losses totaled \$22.2 million. Sales and repayments of investments totaled \$108.1 million and realized losses totaled \$25.4 million for the three months ended December 31, 2015. The change in realized gains/losses was primarily due to changes in the market conditions of our investments and the values at which they were realized.



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

For the three months ended December 31, 2016 and 2015, we reported net unrealized appreciation (depreciation) on investments of \$25.4 million and \$(39.9) million, respectively. As of December 31, 2016 and September 30, 2016, our net unrealized depreciation on investments totaled \$74.9 million and \$100.3 million, respectively. The net change in unrealized appreciation (depreciation) on our investments was driven primarily by changes in the capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized depreciation (appreciation) of investments that were realized.

For the three months ended December 31, 2016 and 2015, we reported net unrealized depreciation on our Credit Facility and our Notes of \$5.8 million and \$7.7 million, respectively. The change compared with the same period in the prior year was primarily due to changes in the capital markets.

***Net Change in Net Assets Resulting from Operations***

Net change in net assets resulting from operations totaled \$24.0 million, or \$0.34 per share, for the three months ended December 31, 2016. This compares to a net change in net assets resulting from operations of \$(40.8) million, or \$(0.56) per share, for the three months ended December 31, 2015. The increase in the net change in net assets from operations compared with the same period in the prior year was primarily due to the continued growth of our portfolio and appreciation of our investments.

**LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt 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 December 31, 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 December 31, 2016 and September 30, 2016, there was \$148.1 million and \$50.3 million, respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate of 2.63% and 2.76%, as of December 31, 2016 and September 30, 2016, respectively, excluding the undrawn commitments fees of 0.375%. The annualized weighted average cost of debt for the three months ended December 31, 2016 and 2015, inclusive of the fee on the undrawn commitment on the Credit Facility and upfront fees on SBA debentures, was 4.51% and 4.50%, 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 is set at 225 basis points over LIBOR. As of December 31, 2016 and September 30, 2016, we had \$396.9 million and \$494.7 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.

## **Table of Contents**

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 December 31, 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 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. Please see our base indenture filed as Exhibit (d)(8) to our post-effective amendment filed on January 22, 2013, or the Base Indenture, and the supplemental indenture 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 filed as Exhibit (d)(9) to 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.

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 December 31, 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 as part of a group of SBICs under common control may borrow a maximum of \$350.0 million in the aggregate.

As of December 31, 2016 and September 30, 2016, our SBIC Funds had \$225.0 million in debt commitments, of which \$197.5 million was drawn, respectively. As of December 31, 2016 and September 30, 2016, the unamortized fees on the SBA debentures was \$4.1 million and \$4.3 million, respectively. The SBA debentures upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures as of December 31, 2016 and September 30, 2016 were as follows:

**Fixed All-in**

<b>Issuance Dates</b>	<b>Maturity</b>	<b>coupon rate <sup>(1)</sup></b>	<b>Principal Balance</b>
September 22, 2010	September 1, 2020	3.50%	\$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000
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

(1) Excludes 3.43% of upfront fees.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of December 31, 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 December 31, 2016 and September 30, 2016, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. In 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage ratio requirement to exclude the SBA debentures from the calculation. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% which, while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

At December 31, 2016 and September 30, 2016, we had cash and cash equivalents of \$45.3 million and \$75.6 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 used cash of \$108.3 million for the three months ended December 31, 2016, and our financing activities provided cash of \$77.9 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily for net borrowings under our Credit Facility.

Our operating activities used cash of \$0.9 million for the three months ended December 31, 2015, and our financing activities used cash of \$22.7 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities used cash primarily for our stock repurchase plan.

**Table of Contents****Contractual Obligations**

A summary of our significant contractual payment obligations at cost as of December 31, 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	\$ 148.1	\$	\$ 148.1	\$	\$
SBA debentures	197.5			150.0	47.5
2019 Notes	250.0		250.0		
2025 Notes	71.3				71.3
Total debt outstanding <sup>(1)</sup>	666.9		398.1	150.0	118.8
Unfunded investments <sup>(2)</sup>	7.6			6.5	1.1
Total contractual obligations	\$ 674.5	\$	\$ 398.1	\$ 156.5	\$ 119.9

(1) The annualized weighted average cost of debt as of December 31, 2016, excluding debt issuance costs, was 3.96% exclusive of the fee on the undrawn commitment on the Credit Facility and 3.43% of upfront fees on SBA debentures.

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

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2017, PennantPark Investment Advisers serves as our Investment Adviser. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements with us. Our SBIC Funds' investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2017, 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 dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of our investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we did not incur any federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, contingent on our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

During the three months ended December 31, 2016 and 2015, we declared distributions of \$0.28 per share for each period for total distributions of \$19.9 million and \$20.1 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 ratified by the board of directors.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of our common

stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions.

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

**Table of Contents****Item 3. Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of December 31, 2016, our debt portfolio consisted of 81% variable-rate investments (including 74% with a floor) and 19% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.

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

Change In Interest Rates	Change In Interest Income,	
	Net Of Interest Expense (In Thousands)	Change In Interest Income, Net Of Interest Expense Per Share
Up 1%	\$ 3,999	\$ 0.06
Up 2%	\$ 12,093	\$ 0.17
Up 3%	\$ 20,187	\$ 0.28
Up 4%	\$ 28,281	\$ 0.40

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

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

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

**Item 4. Controls and Procedures**

As of the period covered by this Report, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule

13a-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

None of us, our Investment Adviser or our Administrator, is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our Investment Adviser or Administrator. From time to time, we, our Investment Adviser or Administrator may be a party to certain legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Report, you should consider carefully the factors discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing PennantPark Investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

Unless specifically indicated otherwise, the following exhibits are incorporated by reference to exhibits previously filed with the SEC:

- 3.1 Articles of Incorporation (Incorporated by reference to Exhibit 99(a) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2/A (File No. 333-140092), filed on April 5, 2007).
- 3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 814-00736), filed on December 2, 2015).
- 4.1 Form of Share Certificate (Incorporated by reference to Exhibit 99(d)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
- 10.1 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 (Incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K (File No. 814-00736), filed on November 21, 2016).
- 11 Computation of Per Share Earnings (included in the notes to the Consolidated Financial Statements contained in this Report).
- 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 32.1\* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Privacy Policy of the Registrant (Incorporated by reference to Exhibit 99.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00736), filed on November 16, 2011).

\* Filed herewith.



Table of Contents

**SIGNATURES**

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

PENNANTPARK INVESTMENT CORPORATION

Date: February 8, 2017

By: /s/ Arthur H. Penn

**Arthur H. Penn**  
**Chief Executive Officer and Chairman of the**  
**Board of Directors**

**(Principal Executive Officer)**

Date: February 8, 2017

By: /s/ Aviv Efrat

**Aviv Efrat**  
**Chief Financial Officer and Treasurer**

**(Principal Financial and Accounting Officer)**