Norwood Kenneth
Form 4
February 07, 2019

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
Norwood Kenneth

(Last) (First) (Middle)

2828 N. HARWOOD, SUITE 1300

(Street)

DALLAS, TX 75201

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HOLLY ENERGY PARTNERS LP [HEP]

3. Date of Earliest Transaction (Month/Day/Year)
02/06/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP and Controller

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Units	02/06/2019		A		6,030 (1)	A	$ 0	29,363	D	
Common Units	02/06/2019		F		1,640 (2)	D	$ 28.88	27,723	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Norwood Kenneth 2828 N. HARWOOD SUITE 1300 DALLAS, TX 75201			VP and Controller	

Signatures

Vaishali S. Bhatia, Attorney-in-Fact	02/07/2019
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These units were deemed issued to the reporting person to settle performance units that were not derivative securities under the Issuer's Long-Term Incentive Plan.

(2) These units were deemed surrendered to satisfy the reporting person's tax liability incident to the issuance of the units reported on the preceding line.

Remarks:
Mr. Norwood is Vice President and Controller of Holly Logistic Services, L.L.C. Holly Logistic Services, L.L.C. is the genera

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition

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

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

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

Foreign Currency Translation

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

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

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

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

Payment-in-Kind Interest or PIK

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. In order for us to maintain our ability to be treated as a RIC for federal income tax purposes, substantially all of this income must be paid out to stockholders in the form of dividends for U.S. federal income tax purposes, even though we may not have collected any cash with respect to interest on PIK securities.

Federal Income Taxes

We have elected to be treated, and intend to qualify annually to maintain our election to be treated, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain annual source-of-income and quarterly asset diversification requirements. We also must annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute to our stockholders in respect of each calendar year of an amount generally at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of the sum of our net capital gain income (i.e., the excess, if any, of capital gains over capital losses) for the one-year period ending on

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October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we paid no federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may retain such net capital gains or investment company taxable income in the future, subject to maintaining our ability to be treated as a RIC for federal income tax purposes, to provide us with additional liquidity.

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

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

RESULTS OF OPERATIONS

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

Investment Income

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

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

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

Expenses

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

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

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

Net Investment Income

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

Net Realized Gains or Losses

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

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

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

Net Change in Net Assets Resulting From Operations

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

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LIQUIDITY AND CAPITAL RESOURCES

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

As of September 30, 2016, we had a $545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of September 30, 2016 and 2015, there was $50.3 million and $136.9 million (including a temporary draw of $30.0 million), respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate at the time of 2.76% and 3.07%, respectively, exclusive of the fee on undrawn commitments, as of September 30, 2016 and 2015. The annualized weighted average cost of debt for the years ended September 30, 2016, 2015 and 2014, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility and upfront fees on SBA debentures, was 4.35%, 4.54% and 3.85%, respectively. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing set at 225 basis points over LIBOR. As of September 30, 2016 and 2015, we had $494.7 million and $408.1 million of unused borrowing capacity under our Credit Facility, respectively, subject to the regulatory restrictions. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on June 30, 2014 and the Credit Facility agreement filed as Exhibit 99.2 thereto and incorporated by reference herein. As of September 30, 2016, we were in compliance with the terms of our Credit Facility.

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

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

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

On May 6, 2015, we announced a share repurchase plan which allowed us to repurchase up to $35.0 million of our outstanding common stock in the open market at prices below our net asset value as reported in our then most recently published consolidated financial statements. The program expired on May 6, 2016. For the fiscal years ended September 30, 2016 and 2015, we repurchased 1.9 million and 2.1 million shares of common stock in open market transactions for an aggregate cost (including transaction costs) of $12.2 and $17.9 million, respectively. For the fiscal year ended September 30, 2014, we did not have a repurchase plan in place.

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

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

As of September 30, 2016 and 2015, our SBIC Funds had $225.0 million in debt commitments, of which $197.5 million and $150.0 million was drawn, respectively. As of September 30, 2016 and 2015, the unamortized fees on the SBA debentures was $4.3 million and $3.7 million, respectively. The SBA debentures upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures were as follows:

			As of September 30, 2016	As of September 30, 2015
Issuance Dates	**Maturity**	**Fixed All-in coupon rate(1), (2)**	**Principal Balance**	**Principal Balance**
September 22, 2010	September 1, 2020	3.50%	$ 500,000	$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000	105,000,000
March 23, 2016	March 1, 2026	2.86	22,500,000	
September 21, 2016	September 1, 2026	2.41	25,000,000	
Weighted Average Rate / Total		3.44%	$ 197,500,000	$ 150,000,000

(1) Excluding 3.43% of upfront fees.

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

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of September 30, 2016, our SBIC Funds were in compliance with their regulatory requirements.

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

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

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

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

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

Contractual Obligations

A summary of our significant contractual payment obligations as of September 30, 2016, including borrowings under our various debt facilities and other contractual obligations, is as follows:

	Payments due by period (in millions)				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Credit Facility	$ 50.3	$	$	$ 50.3	$
SBA debentures	197.5			150.0	47.5
2019 Notes	250.0			250.0	
2025 Notes	71.3				71.3
Total debt outstanding (1)	569.1			450.3	118.8
Unfunded investments (2)	3.1			2.0	1.1
Total contractual obligations	$ 572.2	$	$	$ 452.3	$ 119.9

(1) The annualized weighted average cost of debt as of September 30, 2016, excluding debt issuance costs, was 4.20% exclusive of the fee on the undrawn commitment on the Credit Facility and 3.43% of upfront fees on SBA debentures.

(2) Unfunded debt and equity investments are disclosed in the Consolidated Schedule of Investments and Note 12 of our Consolidated Financial Statements.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2016. PennantPark Investment Advisers serves as our Investment Adviser in accordance with the terms of that Investment Management Agreement. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements with us. Our SBIC Funds investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2016, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements, which are intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, we or the Administrator will be paid an additional amount based on the services provided. Payment under our Administration Agreement is based upon our allocable portion of the Administrator s overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

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

Off-Balance Sheet Arrangements

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

Distributions

In order to be treated as a RIC for federal income tax purposes and to not be subject to corporate-level tax on undistributed income or gains, we are required, under Subchapter M of the Code, to annually distribute to stockholders out of the assets legally available for distribution of an amount at least equal to 90% of the sum of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, determined without regard to any deduction for dividends paid. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute to our stockholders in respect of each calendar year of an amount generally at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of our capital gain net income (i.e., the excess, if any, of capital gains over capital losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we paid no federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may retain such net capital gains or investment company taxable income in the future, subject to maintaining our ability to be treated as a RIC for federal income tax purposes, to provide us with additional liquidity.

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

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

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

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

STOCK REPURCHASE PROGRAM

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

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Item 7A. Quantitative And Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of September 30, 2016, our debt portfolio consisted of 78% variable-rate investments (including 72% with a LIBOR or prime floor) and 22% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.

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

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

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

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

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

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Item 8. Consolidated Financial Statements and Supplementary Data

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Consolidated Statements of Assets and Liabilities as of September 30, 2016 and 2015	**48**
Consolidated Statements of Operations for the years ended September 30, 2016, 2015 and 2014	**49**
Consolidated Statements of Changes in Net Assets for the years ended September 30, 2016, 2015 and 2014	**50**
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Management s Report on Internal Control Over Financial Reporting

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

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

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

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

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

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

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

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

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

/s/ RSM US LLP

New York, New York

November 21, 2016

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Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders

PennantPark Investment Corporation and its Subsidiaries:

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

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

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities of PennantPark Investment Corporation and its Subsidiaries, including the schedules of investments as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended

September 30, 2016 and our report dated November 21, 2016 expressed an unqualified opinion on those financial statements.

/s/ RSM US LLP

New York, New York

November 21, 2016

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

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

Accumulated net realized (loss) gain on investments	(84,771,820)	18,919,305
Net unrealized depreciation on investments	(100,280,954)	(125,207,012)
Net unrealized depreciation on debt	5,245,513	1,518,940
Total net assets	$ 643,366,856	$ 716,590,542
Total liabilities and net assets	$ 1,238,935,878	$ 1,365,048,230
Net asset value per share	$ 9.05	$ 9.82

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

Net realized and unrealized (loss) gain from investments and debt		(51,878,076)		(92,503,741)		39,654,960
Net increase (decrease) in net assets resulting from operations	$	18,736,706	$	(10,245,652)	$	110,983,477
Net increase (decrease) in net assets resulting from operations per common share	$	0.26	$	(0.14)	$	1.66
Net investment income per common share	$	0.99	$	1.10	$	1.06

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2016	**2015**	**2014**
Cash flows from operating activities:			
Net increase (decrease) in net assets resulting from operations	$ 18,736,706	$ (10,245,652)	$ 110,983,477
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net change in unrealized (appreciation) depreciation on investments	(24,926,058)	124,325,945	(12,461,265)
Net change in unrealized (depreciation) appreciation on debt	(3,726,573)	(1,710,510)	3,041,570
Net realized loss (gain) on investments	80,530,707	(30,111,694)	(30,235,265)
Net accretion of discount and amortization of premium	(5,251,804)	(6,341,502)	(8,027,104)
Purchase of investments	(330,552,035)	(461,293,170)	(795,089,483)
Payment-in-kind income	(15,123,817)	(13,869,582)	(10,961,812)
Proceeds from dispositions of investments	439,738,846	390,474,733	625,551,026
Decrease (increase) in interest receivable	557,339	6,113,328	(2,808,632)
Decrease (increase) in prepaid expenses and other assets	6,175,712	474,481	(7,498,949)
Decrease in payable for investments purchased	(3,591,177)	(841,323)	(48,112,204)
(Decrease) increase in interest payable on debt	(118,401)	5,676,250	151,798
Amortization of deferred financing costs	626,452	554,756	514,542
(Decrease) increase in base management fee payable, net	(1,527,199)	216,926	965,546
(Decrease) increase in performance-based incentive fee payable, net	(2,142,348)	385,038	347,873
(Decrease) increase in accrued other expenses	(1,699,487)	(791,316)	1,103,877
Net cash provided by (used in) operating activities	157,706,863	3,016,708	(172,535,005)
Cash flows from financing activities:			
Public offerings			98,855,000
Offering costs			(3,465,650)
Repurchase of common stock	(12,180,491)	(17,898,517)	
Deferred financing costs	(1,151,875)		(750,000)
Distributions paid to stockholders	(80,313,359)	(83,870,760)	(73,462,877)
Borrowings under SBA debentures	47,500,000		
Proceeds from 2019 and 2025 Notes issuances			250,000,000
Borrowings under Credit Facility	413,664,923	644,000,000	1,186,753,100
Repayments under Credit Facility	(500,189,523)	(562,362,000)	(1,277,026,800)
Net cash (used in) provided by financing activities	(132,670,325)	(20,131,277)	180,902,773

Net increase (decrease) in cash and cash equivalents		25,036,538		(17,114,569)		8,367,768
Effect of exchange rate changes on cash		952,319		215,143		(289,915)
Cash and cash equivalents, beginning of year		49,619,256		66,518,682		58,440,829
Cash and cash equivalents, end of year	$	75,608,113	$	49,619,256	$	66,518,682
Supplemental disclosure of cash flow information:						
Interest paid	$	27,093,191	$	20,124,075	$	19,575,955
Taxes paid	$	2,549,392	$	61,748	$	8,278
Distributions reinvested	$		$		$	1,068,682
Non-cash exchanges and conversions	$	62,949,729	$	39,765,183	$	59,126,053

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2016

Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Va
ments in Non-Controlled, Non-Affiliated Portfolio Companies 126.4%(1), (2)							
ien Secured Debt 38.7%							
ming I, LLC	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825	23,333,361	$ 23,071,460	$ 22,21
Bros., Co., e A	06/03/2021	Consumer Products	7.00%	L+575	9,150,000	8,989,610	9,08
Bros., Co., e B	06/03/2021	Consumer Products	13.50%	L+1,225	9,225,000	9,058,699	9,16
der Sleep ts, LLC	10/21/2020	Consumer Products	9.00%	L+800	4,372,074	4,323,938	4,28
Specialists,	06/30/2020	Building Materials	9.00%	L+800	24,985,195	24,786,989	24,98
e Solutions L.P.	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	14,522,529	14,273,869	14,24
Atlantis gs, LLC	01/15/2021	Retail	10.00%	L+900	38,391,045	37,888,445	38,39
Mineral g Corp. (5)	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,156,176	13,35
shaw US g Corp.	06/18/2019	Electronics	8.50%	L+700	15,948,113	15,875,684	15,97
Defense ns, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	18,306,549	18,075,370	18,21
Manufacturing,	12/28/2020	Manufacturing / Basic Industries	11.27%	L+1,075(7)	28,859,421	28,349,720	28,85
nns Limited (12)	02/12/2020	Buildings and Real Estate	10.88%	L+1,050(7)	22,512,751	35,990,065	28,70
d Acquisition,	08/13/2021	Healthcare, Education and Childcare	10.00%	L+900	8,651,563	8,651,563	8,65
ell Services,	05/02/2019	Oil and Gas	14.02% (PIK 14.02%)	L+1,350(7)	14,988,321	14,796,715	12,91
irst Lien Secured Debt						258,288,303	249,03
l Lien d Debt 61.0%							
	09/01/2017		(6)		25,400,000	25,400,000	17,78

can Gilsonite ny [5]		Diversified Natural Resources, Precious Metals and Minerals					
Capital ation [12]	03/04/2022	Financial Services	13.75%		28,500,000	28,253,554	28,50
Oil & Gas,	11/01/2018	Oil and Gas	[6]		26,979,281	25,422,260	8,63
d Berger Co.	09/30/2020	Distribution	11.00%	L+1,000	41,250,000	39,419,316	37,12
ediate ortation 100,	03/01/2017	Cargo Transport	[6]		4,887,760	3,739,797	2,93
inment, Inc.	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175	51,775,000	51,362,786	51,77
uth, Inc.	10/22/2021	Printing and Publishing	11.50%	L+1,050	26,425,000	25,926,258	26,42
x Acquisition,	07/07/2021	Business Services	12.25%	L+1,100	41,250,000	40,929,816	41,25
oldings d Partnership	12/17/2021	Hotels, Motels, Inns and Gaming	13.00%	L+1,200	75,000,000	75,000,000	76,22
Media, Inc.	10/02/2020	Media	9.00%	L+775	18,270,159	18,101,798	18,20
d Legal es, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	10.25%	L+900	56,750,000	56,202,295	56,08
Security es Borrower,	07/01/2022	Personal, Food and Miscellaneous Services	9.75%	L+875	14,798,077	14,613,655	15,02
yer ition Corp.	01/30/2023	Business Services	10.75%	L+975	12,862,500	12,441,130	12,86
Second Lien d Debt						416,812,665	392,83
dinated Corporate 15.9%							
s ologies, LLC	02/15/2019	Financial Services	13.00%	L+1,200	8,930,000	8,844,669	8,83
e nmental LLC	08/20/2021	Environmental Services	12.00%		32,675,553	32,055,101	32,67
Infonet, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	13.00% (PIK 1.75%)		11,035,083	10,937,329	10,53
n Trading d [9], [11], [12]	02/19/2018	Healthcare, Education and Childcare	14.50% (PIK 6.00%)	L+1,000	8,375,600	12,306,414	10,85
l-Reilly, LLC	04/15/2020	Other Media	12.00%		26,500,000	26,617,239	26,30
oldings, Inc.	05/13/2021	Manufacturing / Basic Industries	11.00%		13,300,000	13,090,281	13,30
Subordinated Corporate						103,851,033	102,51

red Equity/Partnership Interests 0.8%[6)]					
ldings, Inc.	Healthcare, Education and Childcare	6.00%	211	500,000	12
s ologies gs Corp.	Financial Services		949	949,050	1,08
rgint ologies gs, LLC	Electronics	8.00%	2,375	2,088,121	2,39
oldco, LLC	Other Media	8.00%	3,591		3
oldings, Inc.	Manufacturing / Basic Industries		1,197	1,197,000	1,40
Preferred /Partnership sts				4,734,171	5,04

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2016

er Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares		Cost		Fair Value
mon Equity/Partnership Interests/Warrants 10.0%(6)									
Holdings, (Warrants)	03/23/2021	Healthcare, Education and Childcare			753	$		$	
geus nologies lings Corp.		Financial Services			1		950		1,0
LCG lings, Inc. rrants)	05/05/2026	Education			933		586,975		1,192,5
umn es, LLC		Broadcasting and Entertainment			1,333,330		3,000,000		
linal stics lings (10) rmediate sportation LLC)		Cargo Transport			137,923		2,111,588		
cade ronmental (10)		Environmental Services			23,600		2,360,000		5,194,7
Galls) e stment lings, LLC		Distribution			1,745,639		1,745,639		3,637,9
vergint nologies lings, LLC		Electronics			2,375				2,671,4
Beauty,		Consumer Products			938,399		2,513,193		25,141,2
day lings, LLC rior cialists,		Building Materials			4,277		217,635		354,5

Holdco,		Other Media			388,378		3,512,4
mon lings, Inc.		Healthcare, Education and Childcare			252,014	2,265,639	1,849,7
i uisition, (10)		Distribution			19	493,280	526,3
at ecoserv nvest lings, LLC		Environmental Services			1,000,000	1,000,000	
Ocean PPL lings, Corp. -Paid Legal ices, Inc.)		Personal, Food and Miscellaneous Services			3,000	3,000,000	5,959,2
ot onal, Inc.		Insurance			100,885	238,038	908,9
er Products lings, LLC, s A Units		Electronics			1,350,000	901,263	1,223,4
er Products lings, LLC, s B Units		Electronics			150,000	142,300	2,800,0
Holdings,		Manufacturing / Basic Industries			1,330	133,000	1,022,5
com Parent lings, Inc.		Printing and Publishing			211,797	793,873	8,051,1
al Common Equity/Partnership Interests/Warrants						21,503,373	64,047,4
al Investments in Non-Controlled, Non-Affiliated Portfolio Companies						805,189,545	813,467,4
stments in Non-Controlled, Affiliated Portfolio Companies 33.5%[1], [2]							
t Lien Secured Debt 8.3%							
in stries LLC	11/25/2020	Aerospace and Defense	10.75%	L+975	23,522,250	23,114,058	23,522,2
in stries LLC olver) (8)	11/25/2020	Aerospace and Defense			1,942,623		
nologies,	03/21/2017	Aerospace and Defense	6.01% (PIK 1.00%)	L+500	4,434,295	3,357,949	3,946,5
AK uisition .	04/30/2018	Business Services	12.00%	L+1,050	22,764,911	22,613,930	22,764,9
AK uisition .	11/22/2016	Business Services	12.00%	L+1,050	3,000,000	3,000,000	3,000,0

volver)							
al First Lien Secured Debt						52,085,937	53,233,6
ond Lien Secured Debt 3.9%							
hion Group,	10/31/2018	Consumer Products	8.50%	L+700	18,000,000	16,960,967	15,825,0
roSolutions Property lings, Inc.	12/26/2017	Environmental Services	9.00%	L+800	9,409,740	9,307,548	9,409,7
al Second Lien Secured Debt						26,268,515	25,234,8
ordinated Debt/Corporate Notes 11.7%							
hion rnational lings ted [5], [9],	07/30/2018	Consumer Products	7.50% (PIK 4.00%)		9,858,025	8,946,674	8,995,4
ctBuy lings, Inc.	11/05/2019	Consumer Products	[6]		14,735,238	12,340,534	2,799,6
Energy, (f/k/a New Resources,), vertible [5]	05/03/2021	Oil and Gas	12.50% (PIK 12.50%)		25,297,664	36,473,119	35,416,7
ice Champ,	10/02/2017	Auto Sector	12.50%		28,000,000	27,841,741	27,908,6
al Subordinated Debt/Corporate Notes						85,602,068	75,120,5
erred Equity 0.7%[6]							
rnational lings, Inc.		Aerospace and Defense			53,071	20,059,340	4,287,1
mmon Equity/Partnership Interests/Warrants 8.9%[6]							
hion Group lings, Inc.		Consumer Products			859,496	30,503,493	32,115,0
hion Group lings, Inc., es C and es D		Consumer Products			37,181	10,265,972	173,8
in stCo, L.P.		Aerospace and Defense			11,250	1,125,000	2,330,8
in stCo, L.P.		Aerospace and Defense			11,250		
ctBuy lings, Inc.		Consumer Products			104,719	21,492,822	

ctBuy lings, Inc. rrants)	11/05/2022	Consumer Products	15,486		
roSolutions lings, Inc.		Environmental Services	143,668	11,960,702	13,112,2
l Energy, (f/k/a New Resources,) (10)		Oil and Gas	113,610		
l Energy agement pany, LLC a NGR agement pany LLC)		Oil and Gas	119,603		
Service mp lings, Inc.		Auto Sector	16,800	2,721,600	6,989,3
rnational lings, Inc.		Aerospace and Defense	53,071	202,620	
AK uisition p.		Business Services	491,755	188,837	2,595,0
al Common Equity/Partnership Interests/Warrants				78,461,046	57,316,4
al Investments in Non-Controlled, Affiliated Portfolio npanies				262,476,906	215,192,5

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2016

e	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index [4]	Par / Shares		Cost		Fair
s in Controlled, Affiliated Portfolio Companies 19.4%[1], [2]									
ecured Debt 14.7%									
y LLC	07/18/2019	Energy and Utilities	10.00% (PIK 10.00%)	L+800	84,606,067	$	83,653,689	$	6
gital Displays, LLC	12/31/2018	Media	14.00% (PIK 14.00%)	L+1,300	26,516,321		24,845,647		2
Lien Secured Debt							108,499,336		9
n Secured Debt 1.2%									
gital Displays, LLC	07/01/2019	Media	16.00% (PIK 16.00%)	L+1,500	8,675,815		8,675,815		
quity 3.1%[6]									
F Holdings Corp.		Distribution			143,183		14,318,325		2
gital Displays Holdings, Inc.		Media	15.00%		103,916		7,000,000		
rred Equity							21,318,325		2
quity 0.4%[6]									
F Holdings Corp.		Distribution			65,933		24,761,831		
y Holdings LLC		Energy and Utilities			23,141		20,824,388		
gital Displays Holdings, Inc.		Media			11,100		2,211,000		
mon Equity							47,797,219		
tments in Controlled, Affiliated Portfolio Companies							186,290,695		12
tments 179.3%							1,253,957,146		1,15
ash Equivalents 11.8%									
Liquidity Funds, Temp Cash, Institutional Shares							64,897,736		6
n Cash Reserve and Cash							10,719,397		1

and Cash Equivalents	75,617,133	7
tments and Cash Equivalents 191.1%	$ 1,329,574,279	$ 1,22
n Excess of Other Assets (91.1%)		(58
100.0%		$ 64

(1) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be non-controlled when we own 25% or less of the portfolio company s voting securities and controlled when we own more than 25% of the portfolio company s voting securities.
(2) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as non-affiliated when we own less than 5% of a portfolio company s voting securities and affiliated when we own 5% or more of a portfolio company s voting securities (see Note 6).
(3) Valued based on our accounting policy (see Note 2).
(4) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or L, or Prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
(6) Non-income producing securities.
(7) Coupon is not subject to a LIBOR or Prime rate floor.
(8) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
(9) Non-U.S. company or principal place of business outside the U.S.
(10) Investment is held through a consolidated taxable subsidiary (See Note 1 to the financial statements).
(11) Par amount is denominated in British Pounds.
(12) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2015

	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost
Non-Controlled, Non-Affiliated Portfolio Companies 153.0%(1), (2)						
ured Debt 39.1%						
s Aviation Services LLC	03/21/2018	Communications	11.25%	L+975	22,689,469	$ 22,109,951
ed Holdings, Inc.	04/02/2018	Retail	11.97%	L+1,175(8)	44,459,443	43,751,988
ed Holdings, Inc. (Revolver) (9)	04/02/2018	Retail			4,371,469	
LLC	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825	23,573,292	23,268,725
Products, LLC	10/21/2020	Consumer Products	9.00%	L+800	4,477,500	4,418,746
ists, Inc.	06/30/2020	Building Materials	9.00%	L+800	25,500,000	25,254,194
ons NoCal, L.P.	08/19/2019	Chemicals, Plastics and Rubber	11.00%	L+1,000	21,644,154	21,333,439
nd Linc Energy Finance (USA), Inc. (5)	10/31/2017	Oil and Gas	9.63%		5,626,850	5,626,850
Holding Corp. (5)	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,137,010
Holding Corp.	06/18/2019	Electronics	9.00%	L+750	13,435,343	13,339,249
Solutions, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	19,704,329	19,043,541
ational (UK) Limited (10), (12), (13)	09/28/2018	Hotels, Motels, Inns and Gaming	13.00% (PIK 0.50%)	L+1,250(8)	19,947,600	30,053,647
ted (10), (12), (13)	02/12/2020	Buildings and Real Estate	11.08%	L+1,050(8)	24,386,987	38,764,474
sition, Inc.	08/13/2021	Healthcare, Education and Childcare	10.00%	L+900	8,739,063	8,739,063
ces, LLC	05/02/2019	Oil and Gas	12.00%	L+1,150	15,297,762	15,036,838
n Secured Debt						284,877,715
ecured Debt 83.7%						
, Inc.	10/31/2018		8.50%	L+700	18,000,000	16,544,788

		Consumer Products				
nite Company [5]	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000
	12/02/2020	Financial Services	9.00%	L+800	15,500,000	15,322,421
Corporation [13]	03/04/2022	Financial Services	13.00%		19,000,000	18,721,641
as, LLC	11/01/2018	Oil and Gas	12.25% (PIK 2.50%)	L+1,100	26,484,773	25,150,663
lding Materials, LLC	04/30/2019	Building Materials	13.25%	P+1,000	45,000,000	44,625,152
lding Materials, LLC	04/30/2019	Building Materials	14.25% (PIK 1.00%)	P+1,100	33,109,864	32,588,028
Co. LLC	09/30/2020	Distribution	11.00%	L+1,000	41,250,000	39,088,044
ansportation 100, LLC [5]	03/01/2017	Cargo Transport	[6]		4,391,420	4,391,422
Holdings, Inc.	07/31/2019	Consumer Products	11.00%	L+1,000	34,000,000	33,476,169
nment, Inc.	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175	48,765,129	48,307,757
LLC	07/07/2022	Personal, Food and Miscellaneous Services	10.75%	L+975	40,312,500	39,711,804
nd Linc Energy Finance (USA), Inc. [5]	10/31/2017	Oil and Gas	12.50%[7]		11,875,000	11,667,848
urces, LLC [5]	05/15/2019	Oil and Gas	[6]		45,000,000	44,698,345
ition, LLC	07/07/2021	Business Services	11.75%	L+1,050	41,250,000	40,883,259
Limited Partnership [10], [13]	12/17/2021	Hotels, Motels, Inns and Gaming	13.00%	L+1,200	75,000,000	75,000,000
nc.	10/02/2020	Media	9.00%	L+775	19,698,091	19,478,649
Services, Inc.	07/01/2020	Personal, Food and Miscellaneous Services	10.25%	L+900	56,750,000	56,098,358
Services Borrower, LLC	07/01/2022	Personal, Food and Miscellaneous Services	9.75%	L+875	28,500,000	28,082,664
ien Secured Debt						619,237,012
Debt/Corporate Notes 20.7%						
Holdings, Inc.	09/14/2018	Consumer Products	[6]		41,389,881	37,715,391
ments LLC	08/15/2018		[6]		21,625,412	18,687,177

		Consumer Products			
ologies, LLC	02/15/2019	Financial Services	12.00%	8,930,000	8,819,557
ldings, LLC	08/20/2021	Environmental Services	12.00%	27,475,553	26,893,410
ldings, LLC (9)	02/20/2017	Environmental Services		11,124,447	
Inc.	10/26/2018	Personal, Food and Miscellaneous Services	13.00% (PIK 1.75%)	10,800,349	10,664,093
	06/15/2017	Printing and Publishing	14.50%(7)	15,000,000	14,836,009
urces, LLC (5)	11/15/2019	Oil and Gas	(6)	15,204,289	14,829,719
LLC	04/15/2019	Other Media	12.50%(7)	42,275,000	41,618,180
Inc.	05/13/2021	Manufacturing / Basic Industries	11.00%	13,300,000	13,057,260
nated Debt/Corporate Notes					187,120,796

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

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SEPTEMBER 30, 2015

Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares	Cost	Fair Valu
red Equity/Partnership Interests 1.8%(6)							
oldings, Inc.		Healthcare, Education and Childcare	6.00%		211	$ 500,000	$ 35
us Technologies Holdings Corp.		Financial Services			949	949,050	99
rgint Technologies Holdings, LLC		Electronics	8.00%		2,375	2,088,121	2,222
oldco, LLC		Other Media	8.00%		3,591		24
osmetics US, Inc.		Consumer Products	8.00%		3,397	3,397,484	3,87
Holdings, Inc.		Manufacturing / Basic Industries			1,197	1,197,000	1,29
Holdings, Inc. (f/k/a Ride Holdings, Inc.)		Personal Transportation	8.00%		1,966,667	2,102,669	4,27
Preferred Equity/Partnership Interests						10,234,324	13,039
non Equity/Partnership Interests/Warrants 7.7%(6)							
Wireless Holdings, Inc.		Retail			1,736	445,500	2,528
on Group Holdings, Inc., Series A (Warrants)	12/12/2023	Consumer Products			4,798,624	10,265,972	2,519
on Group Holdings, Inc., Series B (Warrants)	12/12/2023	Consumer Products			9,822,196		19
oldings, Inc. (Warrants)	03/23/2021	Healthcare, Education and Childcare			753		
us Technologies Holdings Corp.		Financial Services			1	950	
CG Holdings, Inc. (Warrants)	05/05/2026	Education			933	586,975	82
n Games, LLC		Broadcasting and Entertainment			1,333,330	3,000,000	
al Logistics Holdings LLC (11) nediate Transportation 100, LLC)		Cargo Transport			137,923	2,111,588	

de LP Holdings, LLC [11]		Environmental Services	23,600	2,360,000	3,47
M) Holdings, LLC [11] dation Building Materials, LLC)		Building Materials	207,242	2,250,000	8,22
M) Holdings, LLC [9], [11] dation Building Materials, LLC)		Building Materials	103,621		
lls) Prime Investment Holdings, LLC [11]		Distribution	1,745,639	1,745,639	2,04
rgint Technologies Holdings, LLC		Electronics	2,375		99
y Holdings, LLC or Specialists, Inc.)		Building Materials	3,520	171,601	19
oldco, LLC		Other Media	388,378		2,50
osmetics US, Inc.		Consumer Products	252	2,516	1,83
on Holdings, LLC, Class A		Healthcare, Education and Childcare	1,079,920	1,236,832	6,70
on Holdings, LLC, Class D		Healthcare, Education and Childcare	1,079,920	1,028,807	1,02
Acquisition, LLC [11]		Distribution	16	383,447	38
ecoserv Co-Invest Holdings, LLC [11]		Environmental Services	1,000,000	1,000,000	76
um Hunter Resources Corporation (Warrants) [13]	04/16/2016	Oil and Gas	122,192	182,498	
ean PPL Holdings, Corp. aid Legal Services, Inc.)		Personal, Food and Miscellaneous Services	3,000	3,000,000	4,81
Gulf Resources, LLC (Warrants) [11]	05/09/2024	Oil and Gas	13,500	495,000	
National, Inc. (Warrants)	11/27/2023	Insurance	123,129	238,049	1,62
Products Holdings, LLC, Class A Units [11]		Electronics	1,350,000	901,263	1,14
Products Holdings, LLC, Class B Units [11]		Electronics	150,000	142,300	1,35
Group Parent, Inc.		Personal Transportation	1,870,331	148,998	14
Holdings, Inc.		Manufacturing / Basic Industries	1,330	133,000	61
Holdings, Inc. (f/k/a Ride Holdings, Inc.)		Personal Transportation	9,882	11,314	2
om Parent Holdings, Inc.		Printing and Publishing	211,797	793,873	3,57
Holdings, Inc.		Business Services	35,526	4,050,000	7,59
Common Equity/Partnership Interests/Warrants				36,686,122	55,08
Investments in Non-Controlled, Non-Affiliated Portfolio Companies				1,138,155,969	1,096,71

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2015

	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index (4)	Par / Shares		Cost
-Controlled, Affiliated Portfolio Companies 13.3%(1), (2)							
Debt 3.2%							
Corp.	04/30/2018	Business Services	12.00%	L+1,050	23,514,911	$	23,285,42
d Debt 1.3%							
l Property Holdings, Inc.	12/26/2017	Environmental Services	9.00%	L+800	9,409,740		9,237,01
l Property Holdings, Inc. (9)	12/31/2015	Environmental Services			758,850		
Secured Debt							9,237,01
Corporate Notes 4.8%							
Inc.	11/05/2019	Consumer Products	(6)		13,092,070		13,092,07
	10/02/2017	Auto Sector	12.50%		28,000,000		27,702,86
Debt/Corporate Notes							40,794,93
.7%(6)							
oldings, Inc.		Aerospace and Defense			53,071		20,059,34
rtnership Interests/Warrants 3.3%(6)							
Inc.		Consumer Products			104,719		21,492,82
Inc. (Warrants)	11/05/2022	Consumer Products			15,486		
dings, Inc.		Environmental Services			143,668		11,960,70
.P.		Leisure, Amusement, Motion Pictures and			375,000		3,750,00

		Entertainment				
Holdings, Inc.		Auto Sector			16,800	2,721,600
oldings, Inc.		Aerospace and Defense			53,071	202,619
Corp.		Business Services			491,755	188,837
ity/Partnership Interests/Warrants						40,316,580
n Non-Controlled, Affiliated Portfolio Companies						133,693,293
trolled, Affiliated Portfolio Companies 15.0%[1], [2]						
Debt 13.4%						
Tranche A	07/18/2019	Energy and Utilities	10.00% (PIK 10.00%)	L+800	76,425,000	75,177,005
plays, LLC	12/31/2018	Media	14.00% (PIK 14.00%)	L+1,300	23,055,423	20,951,257
cured Debt						96,128,262
d Debt 0.5%						
plays, LLC	07/01/2019	Media	16.00% (PIK 16.00%)	L+1,500	3,462,417	3,462,417
plays, LLC [9]	07/01/2019	Media			2,575,000	
Secured Debt						3,462,417
.1%[6]						
plays Holdings, Inc.		Media	15.00%		37,046	5,000,000
0%[6]						
gs Corp.		Distribution			65,933	24,761,831
gs LLC (f/k/a RAM Energy, LLC)		Energy and Utilities			23,141	20,824,388
plays Holdings, Inc.		Media			11,100	2,211,000
ity						47,797,219
n Controlled, Affiliated Portfolio Companies						152,387,898
181.3%						1,424,237,162
ivalents 6.9%						
Funds, Temp Cash, Institutional Shares						4,564,638
eserve and Cash						45,072,777
h Equivalents						49,637,415

nd Cash Equivalents 188.2%	$ 1,473,874,57
of Other Assets (88.2%)	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2015

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

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. ORGANIZATION

PennantPark Investment Corporation was organized as a Maryland corporation in January 2007. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. PennantPark Investment s objective is to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments. We invest primarily in U.S. middle-market companies in the form of senior secured debt, mezzanine debt and, to a lesser extent, equity investments. On April 24, 2007, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol PNNT. Our 2025 Notes trade on the NYSE under the symbol PNTA.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Our significant accounting policies consistently applied are as follows:

(a) Investment Valuations

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

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

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

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

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

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

(5)

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

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

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

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

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

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

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

(c) Income Taxes

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

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

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

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

(d) Distributions and Capital Transactions

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

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

(e) Foreign Currency Translation

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

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

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

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

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

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

(f) Consolidation

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

3. AGREEMENTS

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2016. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. Our SBIC Funds investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. For providing these services, the Investment Adviser receives a fee from us, consisting of two components Management Fees.

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to waive 16% of base management fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned base management fees of $20.9 million (after a waiver of $4.0 million), $26.7 million and $24.3 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to waive 16% of incentive fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned $13.5 million (after a waiver of $2.5 million), $20.6 million and $17.8 million, respectively, in incentive fees on net investment income from us.

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

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

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2016. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. The Administrator provides similar services to our SBIC Funds under each of their administration agreements with PennantPark Investment. For providing these services, facilities and personnel, PennantPark Investment has agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and PennantPark Investment s allocable portion of the costs of compensation and related expenses for its Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on PennantPark Investment s behalf, managerial assistance to portfolio companies to which PennantPark Investment is required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the fiscal years ended September 30, 2016, 2015 and 2014, the Investment Adviser was reimbursed $3.7 million, $3.3 million and $3.0 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

4. INVESTMENTS

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

Investments and cash and cash equivalents consisted of the following:

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

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

	As of September 30,	
Industry Classification	**2016**	**2015**
Hotels, Motels, Inns and Gaming	13%	14%
Consumer Products	9	8
Personal, Food and Miscellaneous Services	8	11
Business Services	7	6
Distribution	6	4
Energy/Utilities	6	6
Aerospace and Defense	5	2
Environmental Services	5	4

Media	5	4
Oil and Gas	5	6
Manufacturing / Basic Industries	4	1
Auto Sector	3	2
Financial Services	3	3
Other Media	3	3
Printing and Publishing	3	1
Retail	3	4
Building Materials	2	9
Buildings and Real Estate	2	3
Electronics	2	1
Healthcare, Education and Childcare	2	1
Chemicals, Plastics and Rubber	1	2
Other	3	5
Total	100%	100%

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Our investments are generally structured as debt and equity investments in the form of senior secured debt, mezzanine debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. Our ability to observe valuation inputs resulted in one reclassification from Level 2 to 1, one reclassification from Level 3 to 1 and one reclassification from Level 3 to 2 during the year ended September 30, 2016. During the year ended September 30, 2015, there were three reclassifications from Level 2 to 3 and one reclassification from Level 3 to 2.

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

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

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

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

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

		Fair Value at September 30, 2016		
Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt investments	$ 1,000,146,681	$	$	$ 1,000,146,681

Equity investments	153,532,994	2,758,757	25,141,220	125,633,017
Total investments	1,153,679,675	2,758,757	25,141,220	1,125,779,698
Cash and cash equivalents	75,608,113	75,608,113		
Total investments, cash and cash equivalents	$ 1,229,287,788	$ 78,366,870	$ 25,141,220	$ 1,125,779,698
Long-Term Credit Facility	$ 39,551,187	$	$	$ 39,551,187
2019 Notes	254,175,000		254,175,000	
2025 Notes	72,618,000	72,618,000		
Total debt	$ 366,344,187	$ 72,618,000	$ 254,175,000	$ 39,551,187

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

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

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

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

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 carrying/fair valued liabilities measured using significant unobservable inputs (Level 3):

	Carrying/Fair Value Years Ended September 30,	
ng-Term Credit Facility and 2019 Notes	**2016**	**2015**
ginning Balance (cost $106,864,300 and $305,226,300, respectively)	$ 102,356,860	$ 304,847,87
tal unrealized depreciation included in earnings	(6,281,073)	(1,026,51
rrowings [1]	272,664,923	349,000,00
payments [1]	(329,189,523)	(297,362,00
nsfers in and/or out of Level 3		(253,102,50
ding Balance (cost $50,339,700 and $106,864,300, respectively)	$ 39,551,187	$ 102,356,86
mporary draws outstanding, at cost		30,000,00
ding Balance (cost $50,339,700 and $136,864,300, respectively)	$ 39,551,187	$ 132,356,86

[1] Excludes temporary draws.

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

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

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SEPTEMBER 30, 2016

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

6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A portfolio company is generally presumed to be a non-controlled affiliate when we own at least 5% but 25% or less of its voting securities and a controlled affiliate when we own more than 25% of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the year ended September 30, 2016 were as follows:

Name of Investment	Fair Value at September 30, 2015 [1]	Purchases of / Advances to Affiliates [1], [2]	Sale of / Distributions from Affiliates [1]	Income Accrued	Fair Value at September 30, 2016 [1]	Net Realized Gains (Losses)
Controlled Affiliates						
MidOcean JF Holdings Corp. (JF Acquisition, LLC)	$ 6,900,207	$ 14,318,325	$	$	$ 22,837,602	$
RAM Energy LLC	72,759,582	8,181,067		8,445,233	68,319,399	
Superior Digital Displays Holdings,	27,165,861	10,674,296		5,036,450	33,862,636	

Inc.						
Non-Controlled Affiliates						
Affinion Group Holdings, Inc. (3)		341,025		2,369,417	57,109,394	
Corfin Industries LLC (3)		24,351,000	(177,750)	2,325,887	25,853,063	
DirectBuy Holdings, Inc.	6,284,194	(751,537)			2,799,695	
EnviroSolutions Holdings, Inc.	20,464,829			931,525	22,522,000	
ETX Energy, LLC (4) (f/k/a New Gulf Resources, LLC)		766,596		185,836	35,416,730	
NCP-Performance, L.P.						(3,750,000)
PAS International Holdings, Inc.	11,432,674	2,811,733	(22,265)	682,190	8,233,630	
Service Champ, Inc.	32,388,562			3,673,874	34,898,025	
TRAK Acquisition Corp.	24,932,845	24,000,000	(21,750,000)	2,967,159	28,360,010	
Total Controlled and Non-Controlled Affiliates	$ 202,328,754	$ 84,692,505	$ (21,950,015)	$ 26,617,571	$ 340,212,184	$ (3,750,000)

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

7. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

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

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

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

8. TAXES AND DISTRIBUTIONS

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

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

The following amounts were reclassified for tax purposes:

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

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

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

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

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

The tax characteristics of distributions declared are as follows:

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

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

9. CASH EQUIVALENTS

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

10. FINANCIAL HIGHLIGHTS

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

	2016	2015	2014	2013 [9]	
:					
beginning of year	$ 9.82	$ 11.03	$ 10.49	$ 10.22	$
ncome [1]	0.99	1.10	1.06	1.01	
unrealized (loss) gain [1]	(0.73)	(1.24)	0.60	0.38	
crease) in net assets resulting from operations [1]	0.26	(0.14)	1.66	1.39	
stockholders [1], [2]					
et investment income	(0.81)	(1.11)	(1.15)	(1.12)	
ealized gains	(0.30)				
ns to stockholders	(1.11)	(1.11)	(1.15)	(1.12)	
ommon stock [1]	0.08	0.04			
ve) effect of common stock issuance [1]			0.03		
end of year	$ 9.05	$ 9.82	$ 11.03	$ 10.49	$
value, end of year	$ 7.52	$ 6.47	$ 10.91	$ 11.28	$

	36.64%	(32.51)%	6.76%	17.37%	
ng at end of year	71,060,836	72,966,043	75,092,911	66,499,327	
nental Data:					
g expenses to average net assets [4], [5]	6.65%	6.81%	6.43%	6.31%	
facility related expenses to average net assets [6]	4.18%	3.39%	3.83%	2.60%	
penses to average net assets [5], [6]	10.83%	10.20%	10.26%	8.91%	
stment income to average net assets	10.70%	10.57%	9.55%	9.60%	
of year	$ 643,366,856	$ 716,590,542	$ 828,009,949	$ 697,506,199	$
e debt outstanding [6]	$ 634,769,508	$ 580,367,750	$ 526,252,068	$ 363,246,849	$
e debt per share [1], [6]	$ 8.86	$ 7.76	$ 7.85	$ 5.47	$
per unit [7]	$ 2,756	$ 2,569	$ 3,198	$ 4,261	$
value per unit [8]	$ 24.68	$ 25.13	24.51	24.79	
er ratio	26.50%	30.17%	50.66%	40.91%	

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

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

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

(4) Excludes debt related costs.

(5) For the year ended September 30, 2016, the ratio of operating expenses before the waiver of Management Fees to average net assets was 7.64% and the ratio of total expenses before the waiver of Management Fees to average net assets was 11.82%.

(6) Includes SBA debentures outstanding.

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

(8) The average market value per unit is derived based on the monthly average closing price of the 2025 Notes trading on NYSE under the symbol PNTA, which were issued in increments of $25 per unit.

(9) Audited by predecessor auditors.

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

11. DEBT

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

Credit Facility

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

SBA Debentures

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

As of September 30, 2016 and 2015, our SBIC Funds had $225.0 million in debt commitments, of which $197.5 million and $150.0 million was drawn, respectively. As of September 30, 2016 and 2015, the unamortized fees on the SBA debentures was $4.3 million and $3.7 million, respectively. The SBA debentures upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures were as follows:

Issuance Dates	Maturity	Fixed All-in coupon rate(1), (2)	As of September 30, 2016 Principal Balance	As of September 30, 2015 Principal Balance
September 22, 2010	September 1, 2020	3.50%	$ 500,000	$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000	105,000,000
March 23, 2016	March 1, 2026	2.86	22,500,000	
September 21, 2016	September 1, 2026	2.41	25,000,000	
Weighted Average Rate / Total		3.44%	$ 197,500,000	$ 150,000,000

(1) Excluding 3.43% of upfront fees.

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

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of September 30, 2016, our SBIC Funds were in compliance with their regulatory requirements.

2019 Notes

As of September 2016 and 2015, we had $250.0 million in aggregate principal amount of 2019 Notes. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

2025 Notes

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

12. COMMITMENTS AND CONTINGENCIES

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

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2016

13. STOCK REPURCHASE PROGRAM

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

14. UNCONSOLIDATED SIGNIFICANT SUBSIDIARIES

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

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

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

(1) All amounts are in thousands and unaudited.

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SUPPLEMENTARY DATA

Selected Quarterly Data (Unaudited)

(dollar amounts in thousands, except per share data)

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

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

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

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

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2016, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

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

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

(c) Changes in Internal Controls Over Financial Reporting

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

Item 9B. Other Information

None.

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PART III

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

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

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

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PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

(2) Financial Statement Schedules None.

(3) Exhibits

3.1	Articles of Incorporation (Incorporated by reference to Exhibit 99(a) to the Registrant s Pre-Effective Amendment No.3 to the Registration Statement on Form N-2/A (File No. 333-140092), filed on April 5, 2007).
3.2	Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 814-00736), filed on December 2, 2015).
4.1	Form of Share Certificate (Incorporated by reference to Exhibit 99(d)(1) to the Registrant s Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
4.2	Base Indenture, dated as of January 22, 2013, relating to the 6.25% Senior Notes due 2025, between the Registrant and American Stock Transfer & Trust Company, LLC, as trustee (Incorporated by reference to Exhibit 99(d)(8) to the Registrant s Post-Effective Amendment No.4 to the Registration Statement on Form N-2/A (File No.333-172524), filed on January 22, 2013. filed on January 22, 2013).
4.3	First Supplemental Indenture, dated as of January 22, 2013, relating to the 6.25% Senior Notes due 2025, between the Registrant and American Stock Transfer & Trust Company, LLC, as trustee (Incorporated by reference to Exhibit 99(d)(9) to the Registrant s Post-Effective Amendment No.4 to the Registration Statement on Form N-2/A (File No.333-172524), filed on January 22, 2013. filed on January 22, 2013).
4.4	Form of 6.25% Senior Notes due 2025 (included as part of Exhibit 4.3).
4.5	Second Supplemental Indenture, dated as of September 23, 2014, relating to the 4.50% Notes due 2019, between the Registrant and American Stock Transfer & Trust Company, LLC, as trustee (Incorporated by reference to Exhibit 99 (d)(11) to the Registrant s Post-Effective Amendment No. 2 to Form N-2 (File No. 333-192782), filed on September 23, 2014.
4.6	Form of 4.50% Notes due 2019 (included as part of Exhibit 4.5).

10.1

	First Amended and Restated Investment Advisory Management Agreement between the Registrant and PennantPark Investment Advisers, LLC (Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q (File No. 814-00736), filed on February 3, 2016).
10.2	Form of Administration Agreement between the Registrant and PennantPark Investment Administration LLC (Incorporated by reference to Exhibit 99(k)(1) to the Registrant s Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
10.3	Dividend Reinvestment Plan (Incorporated by reference to Exhibit 99(e) to the Registrant s Registration Statement on Form N-2 (File No. 333-150033), filed on April 2, 2008).
10.4	Second Amended and Restated Senior Secured Revolving Credit Agreement, dated as of June 25, 2014, among PennantPark Investment Corporation, the lenders party thereto and SunTrust Bank, as administrative agent for the lenders (Incorporated by reference to Exhibit 99.2 to the Registrant s Current Report on Form 8-K (File No. 814-00736), filed on June 30, 2014).
10.5*	Indemnification Agreement, dated as of November 15, 2016, between PennantPark Investment Corporation and each of the directors and officers listed on Schedule A attached thereto.
11	Computation of Per Share Earnings (included in the notes to the audited financial statements contained in this Report).
14.1*	Joint Code of Ethics of the Registrant.
21.1*	Subsidiaries of the Registrant.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Privacy Policy of the Registrant (Incorporated by reference to Exhibit 99.1 to the Registrant s Annual Report on Form 10-K (File No. 814-00736), filed on November 16, 2011).

* Filed herewith

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SIGNATURES

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

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

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

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