

PENNANTPARK INVESTMENT CORP
Form 10-Q
February 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED DECEMBER 31, 2010

OR

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

COMMISSION FILE NUMBER: 814-00736

PENNANTPARK INVESTMENT
CORPORATION

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(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	20-8250744 (I.R.S. Employer Identification No.)
590 Madison Avenue, 15th Floor New York, N.Y. (Address of principal executive offices)	10022 (Zip Code)
(212)-905-1000 (Registrant's Telephone Number, Including Area Code)	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of February 2, 2011 was 36,304,932.

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2010

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PART I CONSOLIDATED FINANCIAL INFORMATION

We are filing this form 10-Q (the Report) in compliance with Rule 13a-13 promulgated by the Securities and Exchange Commission (SEC). In this Report, PennantPark Investment , we , our or us refer to PennantPark Investment Corporation unless the context suggests otherwise. References to SBIC LP and our SBIC refer to our wholly owned, consolidated Small Business Investment Company (SBIC) subsidiary PennantPark SBIC LP and its general partner PennantPark SBIC GP, LLC. References to our portfolio and investments include investments we make through our consolidated SBIC subsidiary.

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

	December 31, 2010 (unaudited)	September 30, 2010
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$651,948,035 and \$631,280,755, respectively)	\$ 680,710,779	\$ 641,290,626
Non-controlled, affiliated investments, at fair value (cost \$17,641,671 and \$17,427,648, respectively)	15,557,531	15,433,680
Controlled, affiliated investments, at fair value (cost \$8,000,100 and \$8,000,100, respectively)	8,000,100	8,000,100
Total Investments, at fair value (cost \$677,589,806 and \$656,708,503, respectively)	704,268,410	664,724,406
Cash and cash equivalents (See Note 8)	3,022,137	1,814,451
Interest receivable	7,357,002	12,814,096
Receivables for investments sold		30,254,774
Prepaid expenses and other assets	2,671,704	1,886,119
Total assets	717,319,253	711,493,846
Liabilities		
Distributions payable	9,418,227	9,401,281
Payable for investments purchased		52,785,000
Unfunded investments	18,580,431	22,203,434
Credit facility payable (cost \$255,800,000 and \$233,100,000, respectively) (See Notes 5 and 10)	248,445,750	219,141,125
SBA debentures payable (cost \$30,000,000 and \$14,500,000, respectively) (See Note 10)	30,000,000	14,500,000
Interest payable on credit facility and SBA debentures	267,310	215,135
Management fee payable (See Note 3)	3,498,594	3,286,816
Performance-based incentive fee payable (See Note 3)	2,792,994	2,239,011
Accrued other expenses	924,985	1,146,821
Total liabilities	313,928,291	324,918,623
Net Assets		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized, 36,223,950 and 36,158,772 shares issued and outstanding, respectively	36,224	36,159
Paid-in capital in excess of par	429,267,895	428,675,184
Undistributed net investment income	3,672,171	1,800,646
Accumulated net realized loss on investments	(63,618,182)	(65,911,544)
Net unrealized appreciation on investments	26,678,604	8,015,903
Net unrealized depreciation on credit facility	7,354,250	13,958,875
Total net assets	\$ 403,390,962	\$ 386,575,223
Total liabilities and net assets	\$ 717,319,253	\$ 711,493,846
Net asset value per share	\$ 11.14	\$ 10.69

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

	Three Months Ended December 31,	
	2010	2009
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$ 18,559,165	\$ 12,951,233
Other	846,584	319,603
From non-controlled, affiliated investments:		
Interest	363,432	327,649
From controlled, affiliated investments:		
Interest	210,000	
Total investment income	19,979,181	13,598,485
Expenses:		
Base management fee (See Note 3)	3,498,594	2,524,653
Performance-based incentive fee (See Note 3)	2,792,994	1,809,380
Interest and expenses on the credit facility and SBA debentures (See Note 10)	1,135,427	818,683
Administrative services expenses (See Note 3)	579,055	557,504
Other general and administrative expenses	683,359	543,415
Expenses before taxes	8,689,429	6,253,635
Excise tax (See Note 2)	118,967	106,962
Total expenses	8,808,396	6,360,597
Net investment income	11,170,785	7,237,888
Realized and unrealized gain (loss) on investments and credit facility:		
Net realized gain (loss) on non-controlled, non-affiliated investments	2,293,362	(16,603,865)
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments	18,752,873	24,093,662
Non-controlled, affiliated investments	(90,172)	(212,524)
Credit facility unrealized (appreciation) (See Note 5)	(6,604,625)	(5,838,914)
Net change in unrealized appreciation	12,058,076	18,042,224
Net realized and unrealized gain from investments and credit facility	14,351,438	1,438,359
Net increase in net assets resulting from operations	\$ 25,522,223	\$ 8,676,247
Net increase in net assets resulting from operations per common share (See Note 7)	\$ 0.71	\$ 0.34
Net investment income per common share	\$ 0.31	\$ 0.28

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Three Months Ended December 31,	
	2010	2009
Increase in net assets from operations:		
Net investment income	\$ 11,170,785	\$ 7,237,888
Net realized gain (loss) on investments	2,293,362	(16,603,865)
Net change in unrealized appreciation on investments	18,662,701	23,881,138
Net change in unrealized (appreciation) on credit facility	(6,604,625)	(5,838,914)
Net increase in net assets resulting from operations	25,522,223	8,676,247
Distributions to stockholders:		
Distributions from net investment income	(9,418,227)	(6,452,193)
Capital Share Transactions:		
Issuance of shares of common stock, net of offering costs		3,344,000
Reinvestment of dividends	711,743	
Total increase in net assets	16,815,739	5,568,054
Net Assets:		
Beginning of period	386,575,223	300,580,268
End of period	\$ 403,390,962	\$ 306,148,322
Undistributed net investment income, at period end	3,672,171	2,675,930
Capital Share Activity:		
Public offering		440,000
Reinvestment of dividends	65,178	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 25,522,223	\$ 8,676,247
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in unrealized appreciation on investments	(18,662,701)	(23,881,138)
Net change in unrealized appreciation on credit facility	6,604,625	5,838,914
Net realized (gain) loss on investments	(2,293,362)	16,603,865
Net accretion of discount and amortization of premium	(1,214,474)	(1,271,930)
Purchase of investments	(99,940,829)	(50,481,259)
Payment-in-kind interest	(2,968,067)	(1,159,733)
Proceeds from dispositions of investments	85,535,428	16,808,942
Decrease (Increase) in interest receivable	5,457,094	(175,073)
Decrease in receivables for investments sold	30,254,774	2,680,116
Decrease in prepaid expenses and other assets	255,290	163,284
Decrease in payables for investments purchased	(52,785,000)	(19,489,525)
(Decrease) Increase in unfunded investments	(3,623,003)	123,633
Increase (Decrease) in interest payable on credit facility and/or SBA debentures	52,175	(10,954)
Increase in management fee payable	211,778	304,543
Increase in performance-based incentive fee payable	553,983	301,289
(Decrease) in accrued expenses	(221,836)	(115,217)
Net cash used for operating activities	(27,261,902)	(45,083,996)
Cash flows from financing activities:		
Issuance of shares of common stock, net of offering costs		3,344,000
Distributions paid to stockholders, net of dividends reinvested	(8,689,537)	(5,056,505)
Borrowings under SBA debentures (See Note 10)	15,500,000	
Capitalized borrowing costs	(1,040,875)	
Borrowings under credit facility (See Note 10)	136,000,000	51,300,000
Repayments under credit facility (See Note 10)	(113,300,000)	(30,700,000)
Net cash provided by financing activities	28,469,588	18,887,495
Net increase (decrease) in cash and cash equivalents	1,207,686	(26,196,501)
Cash and cash equivalents, beginning of period	1,814,451	33,247,666
Cash and cash equivalents, end of period	\$ 3,022,137	\$ 7,051,165
Supplemental disclosure of cash flow information and non-cash financing activity (See Note 5):		
Interest paid	\$ 931,687	\$ 762,328
Dividends reinvested	\$ 711,743	\$

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2010

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 168.7%⁽²⁾							
First Lien Secured Debt 67.4%							
Affinity Group Holdings, Inc. ⁽⁵⁾	12/01/2016	Consumer Products	11.50%		\$ 12,000,000	\$ 11,751,046	\$ 11,790,000
Airvana Networks Solution, Inc.	08/27/2014	Communications	11.00%	L+900 ⁽⁸⁾	11,833,333	11,614,917	11,853,060
Birch Communications, Inc.	06/21/2015	Telecommunications	15.00%	L+1,300 ⁽⁸⁾	20,000,000	19,444,282	20,220,000
CEVA Group PLC ^{(5),(10)}	10/01/2016	Logistics	11.63%		7,500,000	7,310,855	8,231,250
CEVA Group PLC ^{(5),(10)}	04/01/2018	Logistics	11.50%		1,000,000	988,048	1,080,000
Chester Downs and Marina, LLC	07/31/2016	Hotels, Motels, Inns and Gaming	12.38%	L+988 ⁽⁸⁾	9,062,500	8,603,111	9,141,797
Columbus International, Inc. ^{(5),(10)}	11/20/2014	Communications	11.50%		10,000,000	10,000,000	11,100,000
Covad Communications Group, Inc. ⁽⁵⁾	11/03/2015	Telecommunications	12.00%	L+1,000 ⁽⁸⁾	7,000,000	6,862,322	7,017,500
EnviroSolutions, Inc. ⁽⁹⁾	07/29/2013	Environmental Services			6,666,666	6,666,666	6,666,666
Fairway Group Acquisition Company	10/01/2014	Grocery	12.00%	L+950 ⁽⁸⁾	11,875,057	11,633,164	11,875,057
Hanley-Wood, L.L.C.	03/08/2014	Other Media	2.56%	L+225	8,730,000	8,730,000	3,579,300
Instant Web, Inc.	08/07/2014	Printing and Publishing	14.50%	L+950 ⁽⁸⁾	24,812,500	24,355,557	25,110,250
Jacuzzi Brands Corp.	02/07/2014	Home and Office Furnishings, Housewares and Durable Consumer Products	2.54%	L+225	9,726,351	9,726,351	7,878,345
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675 ⁽⁸⁾	18,952,500	17,866,534	18,573,450
Learning Care Group, Inc.	04/27/2016	Education	12.00%		26,052,632	25,498,156	26,313,158
Penton Media, Inc.	08/01/2014	Other Media	5.00% ⁽⁶⁾	L+400 ⁽⁸⁾	9,827,611	8,505,772	7,763,812
Questex Media Group LLC	12/16/2012	Other Media	10.50%	L+650 ⁽⁸⁾	53,441	53,441	52,052
Questex Media Group LLC ⁽⁹⁾	12/16/2012	Other Media			213,764	213,764	208,206
Sugarhouse HSP Gaming Prop.	09/23/2014	Hotels, Motels, Inns and Gaming	11.25%	L+825 ⁽⁸⁾	29,500,000	28,776,580	29,930,199
Three Rivers Pharmaceutical, L.L.C.	10/22/2011	Healthcare, Education and Childcare	15.00%	L+1,300 ⁽⁸⁾	30,000,000	27,648,145	30,900,000
VPSI, Inc.	12/22/2015	Personal Transportation	12.00%	L+1,000 ⁽⁸⁾	18,333,333	18,029,449	18,027,166
Yonkers Racing Corp. ⁽⁵⁾	07/15/2016	Hotels, Motels, Inns and Gaming	11.38%		4,500,000	4,384,196	4,955,625
Total First Lien Secured Debt						268,662,356	272,266,893

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2010****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽⁴⁾	Par / Shares	Cost	Fair Value⁽³⁾
Second Lien Secured Debt 23.3%							
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	6.31%	L+600	\$ 13,600,000	\$ 13,234,699	\$ 12,206,000
Brand Energy and Infrastructure Services, Inc.	02/07/2015	Energy/Utilities	7.31%	L+700	12,000,000	11,787,606	10,659,996
EnviroSolutions, Inc.	07/29/2014	Environmental Services	8.00%	L+600 ⁽⁸⁾	6,237,317	6,237,317	6,087,621
Greatwide Logistics Services, L.L.C.	03/01/2014	Cargo Transport	11.00% ⁽⁶⁾	L+700 ⁽⁸⁾	2,570,357	2,570,357	2,594,775
Questex Media Group LLC, Term Loan A	12/15/2014	Other Media	9.50%	L+650 ⁽⁸⁾	3,211,210	3,211,210	2,719,894
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50% ⁽⁶⁾	L+750 ⁽⁸⁾	1,827,075	1,827,075	1,458,006
Realogy Corp.	10/15/2017	Buildings and Real Estate	13.50%		10,000,000	10,000,000	10,893,750
Sheridan Holdings, Inc.	06/15/2015	Healthcare, Education and Childcare	6.04% ⁽⁶⁾	L+575	18,500,000	16,414,348	17,482,500
Specialized Technology Resources, Inc.	12/15/2014	Chemical, Plastics and Rubber	7.26% ⁽⁶⁾	L+700	22,500,000	22,490,659	22,500,000
TransFirst Holdings, Inc.	06/15/2015	Financial Services	6.31% ⁽⁶⁾	L+600	7,811,488	7,362,858	7,245,155
Total Second Lien Secured Debt						95,136,129	93,847,697
Subordinated Debt/Corporate Notes 64.4%							
Affinion Group Holdings, Inc. ⁽⁵⁾	11/15/2015	Consumer Products	11.63%		10,000,000	9,861,938	10,375,000
Aquilex Holdings, LLC ⁽⁵⁾	12/15/2016	Diversified / Conglomerate Services	11.13%		18,885,000	18,395,462	19,121,063
Consolidated Foundries, Inc.	04/17/2015	Aerospace and Defense	14.25% ⁽⁶⁾		8,109,468	7,976,881	8,170,289
CT Technologies Intermediate Holdings, Inc.	03/22/2014	Business Services	14.00% ⁽⁶⁾		20,824,496	20,484,443	21,522,117
Da-Lite Screen Company, Inc. ⁽⁵⁾	04/01/2015	Home and Office Furnishings, Housewares and Durable Consumer Products					