

PENNANTPARK INVESTMENT CORP
Form 10-Q
May 04, 2016
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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 QUARTERLY PERIOD ENDED MARCH 31, 2016

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO

COMMISSION FILE NUMBER: 814-00736

PENNANTPARK INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND

20-8250744

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

590 Madison Avenue, 15th Floor

New York, N.Y.

10022

(Address of principal executive offices)

(Zip Code)

(212) 905-1000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of May 4, 2016 was 71,060,836.

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PART I CONSOLIDATED FINANCIAL INFORMATION

We are filing this Quarterly Report on Form 10-Q, or the Report, in compliance with Rule 13a-13 promulgated by the Securities and Exchange Commission, or the SEC. In this Report, Company, we, our or us refer to PennantPark Investment Corporation and its consolidated subsidiaries unless the context suggests otherwise. PennantPark Investment refers to only PennantPark Investment Corporation; our SBIC Funds refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC LP, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC; SBA refers to the Small Business Administration; SBIC refers to a small business investment company under the Small Business Investment Act of 1958, as amended, or the 1958 Act ; Credit Facility refers to our multi-currency, senior secured revolving credit facility, as amended and restated; 2025 Notes refers to our 6.25% senior notes due 2025; 2019 Notes refers to our 4.50% notes due 2019; our Notes refers, collectively, to our 2025 Notes and our 2019 Notes; BDC refers to a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act ; Code refers to the Internal Revenue Code of 1986, as amended; and RIC refers to a regulated investment company under the Code. References to our portfolio or investments include investments we make through our SBIC Funds and other consolidated subsidiaries.

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

	March 31, 2016 (unaudited)	September 30, 2015
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost \$1,023,986,434 and \$1,138,155,969, respectively)	\$ 960,207,641	\$ 1,096,719,079
Non-controlled, affiliated investments (cost \$226,052,253 and \$133,693,295, respectively)	168,853,904	95,503,104
Controlled, affiliated investments (cost \$162,364,102 and \$152,387,898, respectively)	102,436,835	106,825,650
Total of investments (cost \$1,412,402,789 and \$1,424,237,162, respectively)	1,231,498,380	1,299,047,833
Cash and cash equivalents (cost \$33,358,473 and \$49,637,415, respectively)	33,195,129	49,619,256
Interest receivable	7,407,261	7,590,197
Prepaid expenses and other assets	3,825,834	8,790,944
Total assets	1,275,926,604	1,365,048,230
Liabilities		
Distributions payable	19,897,034	20,430,492
Payable for investments purchased		3,591,177
Credit Facility payable (par \$141,329,823 and \$136,864,300, respectively) (See Notes 5 and 10)	128,753,580	132,356,860
2019 Notes payable (par \$250,000,000) (See Notes 5 and 10)	247,215,000	253,102,500
SBA debentures payable (par \$172,500,000 and \$150,000,000, respectively) (See Notes 5 and 10)	168,518,150	146,269,957
2025 Notes payable (par \$71,250,000) (See Notes 5 and 10)	67,117,500	71,136,000
Base management fee payable, net (See Note 3)	5,136,664	6,602,029
Performance-based incentive fee payable, net (See Note 3)	4,008,876	5,007,792
Interest payable on debt	7,661,128	7,638,514
Accrued other expenses		2,322,367
Total liabilities	648,307,932	648,457,688
Commitments and contingencies (See Note 11)		
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	822,532,643	834,711,229
Distributions in excess of net investment income	(15,747,292)	(13,424,886)
Accumulated net realized (loss) gain on investments	(17,665,676)	18,919,305
Net unrealized depreciation on investments	(181,065,807)	(125,207,012)
Net unrealized depreciation on debt	19,493,743	1,518,940
Total net assets	\$ 627,618,672	\$ 716,590,542
Total liabilities and net assets	\$ 1,275,926,604	\$ 1,365,048,230
Net asset value per share	\$ 8.83	\$ 9.82

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	\$ 26,649,790	\$ 35,227,997	\$ 54,867,820	\$ 70,089,625
Other income	5,860,016	4,818,465	7,527,669	6,397,303
From non-controlled, affiliated investments:				
Interest	3,337,000	1,251,778	5,517,576	2,737,188
From controlled, affiliated investments:				
Interest	3,261,619	1,362,313	6,458,652	2,641,109
Total investment income	39,108,425	42,660,553	74,371,717	81,865,225
Expenses:				
Base management fee (See Note 3)	6,115,075	6,799,737	12,620,855	13,596,488
Performance-based incentive fee (See Note 3)	4,772,473	5,523,967	8,568,255	10,393,185
Interest and expenses on debt (See Note 10)	6,942,925	6,567,496	13,669,250	13,082,827
Administrative services expenses (See Note 3)	900,500	849,656	1,768,000	1,706,720
Other general and administrative expenses	937,563	823,828	1,822,192	1,513,264
Expenses before management fee waiver and provision for taxes	19,668,536	20,564,684	38,448,552	40,292,484
Management Fee waiver (See Note 3)	(1,742,008)		(3,390,262)	
Provision for taxes	350,000		1,650,000	
Net expenses	18,276,528	20,564,684	36,708,290	40,292,484
Net investment income	20,831,897	22,095,869	37,663,427	41,572,741
Realized and unrealized loss on investments and debt:				
Net realized (loss) gain on investments	(11,210,018)	9,490,439	(36,584,981)	18,116,578
Net change in unrealized depreciation on:				
Non-controlled, non-affiliated investments	(6,211,252)	(24,876,250)	(22,954,067)	(77,935,809)
Controlled and non-controlled, affiliated investments	(9,775,018)	107,390	(32,904,728)	2,617
Debt depreciation (See Notes 5 and 10)	10,314,028	561,253	17,974,803	1,676,880

Net change in unrealized depreciation on investments and debt	(5,672,242)	(24,207,607)	(37,883,992)	(76,256,312)
Net realized and unrealized loss from investments and debt	(16,882,260)	(14,717,168)	(74,468,973)	(58,139,734)
Net increase (decrease) in net assets resulting from operations	\$ 3,949,637	\$ 7,378,701	\$ (36,805,546)	\$ (16,566,993)
Net increase (decrease) in net assets resulting from operations per common share (See Note 7)	\$ 0.06	\$ 0.10	\$ (0.51)	\$ (0.22)
Net investment income per common share	\$ 0.29	\$ 0.29	\$ 0.52	\$ 0.55

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended March 31,	
	2016	2015
Net decrease in net assets from operations:		
Net investment income	\$ 37,663,427	\$ 41,572,741
Net realized (loss) gain on investments	(36,584,981)	18,116,578
Net change in unrealized depreciation on investments	(55,858,795)	(77,933,192)
Net change in unrealized depreciation on debt	17,974,803	1,676,880
Net decrease in net assets resulting from operations	(36,805,546)	(16,566,993)
Distributions to stockholders:	(39,985,833)	(42,052,030)
Capital transactions:		
Repurchase of common stock (See Note 12)	(12,180,491)	
Net decrease in net assets	(88,971,870)	(58,619,023)
Net assets:		
Beginning of period	716,590,542	828,009,949
End of period	\$ 627,618,672	\$ 769,390,926
Distributions in excess of net investment income, at end of period	\$ (15,747,292)	\$ (12,281,869)
Capital share activity:		
Shares of common stock repurchased	(1,905,207)	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Six Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	\$ (36,805,546)	\$ (16,566,993)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided (used) by operating activities:		
Net change in net unrealized depreciation on investments	55,858,795	77,933,192
Net change in unrealized depreciation on debt	(17,974,803)	(1,676,880)
Net realized loss (gain) on investments	36,584,981	(18,116,578)
Net accretion of discount and amortization of premium	(2,897,809)	(3,382,651)
Purchases of investments	(216,808,143)	(231,500,954)
Payment-in-kind income	(6,151,360)	(5,306,995)
Proceeds from dispositions of investments	200,963,008	182,505,754
Decrease in interest receivable	182,936	988,042
Decrease (increase) in prepaid expenses and other assets	4,965,110	(50,414)
(Decrease) increase in payable for investments purchased	(3,591,177)	3,589,688
Increase in interest payable on debt	22,614	5,908,706
Amortization of deferred financing costs	293,819	274,239
(Decrease) increase in base management fee payable, net	(1,465,365)	414,633
(Decrease) increase in performance-based incentive fee payable, net	(998,916)	901,213
Decrease in accrued other expenses	(2,322,367)	(1,448,476)
Net cash provided (used) by operating activities	9,855,777	(5,534,474)

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