

PENNANTPARK INVESTMENT CORP
Form 10-Q
February 04, 2009
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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, 2008

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 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 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 issuer's common stock, \$0.001 par value, outstanding as of January 29, 2009 was 21,068,772.

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PENNANTPARK INVESTMENT CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2008

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PART I FINANCIAL INFORMATION

We are filing this Report in compliance with Rule 13a-13 promulgated by the SEC. In this Report, PennantPark Investment , we , our and us refer to PennantPark Investment Corporation unless the context otherwise requires.

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

	December 31, 2008 (unaudited)	September 30, 2008
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$426,340,080 and \$427,481,745, respectively)	\$ 312,457,194	\$ 354,261,950
Non-controlled, affiliated investments, at fair value (cost \$16,855,758 and \$16,692,261, respectively)	16,356,181	17,885,870
Investments at fair value	328,813,375	372,147,820
Cash equivalents (cost \$601,540 and \$40,249,201, respectively)	601,540	40,249,201
Interest receivable	5,830,272	6,046,199
Prepaid expenses and other assets	1,237,105	1,367,479
Total assets	336,482,292	419,810,699
Liabilities		
Distributions payable	5,056,505	5,056,505
Unfunded investments	278,533	
Credit facility payable (fair value-\$109,885,306 and \$160,204,000, respectively) (see note 8) (cost-\$157,400,000 and \$202,000,000, respectively) (see note 2)	109,885,306	202,000,000
Interest payable	805,359	725,317
Management fee payable (see note 3)	1,820,188	85,896
Performance-based incentive fee payable (see note 3)	1,441,982	123,033
Accrued other expenses	1,483,388	1,091,688
Total liabilities	120,771,261	209,082,439
Net Assets		
Common stock, par value \$0.001 per share, 100,000,000 shares authorized and 21,068,772 shares issued and outstanding	21,069	21,069
Paid-in capital in excess of par	294,586,604	294,586,604
Undistributed (distributions in excess of) net investment income	108,764	(602,660)
Retained Earnings Cumulative effect of adoption of fair value option (credit facility)	41,796,000	
Accumulated net realized loss	(12,137,637)	(11,250,567)
Net unrealized depreciation on investments	(114,382,463)	(72,026,186)
Net unrealized appreciation on credit facility	5,718,694	
Total net assets	\$ 215,711,031	\$ 210,728,260
Total liabilities and net assets	\$ 336,482,292	\$ 419,810,699
Net asset value per share	\$ 10.24	\$ 10.00

SEE NOTES TO FINANCIAL STATEMENTS

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

	Three months ended	
	December 31, 2008	December 31, 2007
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$ 11,359,547	\$ 8,599,915
Dividends	236,706	
Other	115,757	19,972
From non-controlled, affiliated investments:		
Interest	364,499	383,721
Total investment income	12,076,509	9,003,608
Expenses:		
Base management fee (see note 3)	1,820,188	1,640,365
Performance-based incentive fee (see note 3)	1,441,982	447,382
Interest and other credit facility expenses	1,837,220	1,097,107
Administrative services expenses (see note 3)	620,402	663,690
Other general and administrative expenses	588,788	628,232
Expenses before base management fee waiver	6,308,580	4,476,776
Base management fee waiver		(205,047)
Net expenses	6,308,580	4,271,729
Net investment income	5,767,929	4,731,879
Realized and unrealized gain (loss) on investments, cash equivalents and credit facility:		
Net realized loss on investments and cash equivalents	(887,070)	(210,891)
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments and cash equivalents	(40,663,091)	(15,801,986)
Non-controlled, affiliated investments	(1,693,186)	(255,658)
Credit facility	5,718,694	
Net change in unrealized appreciation (depreciation)	(36,637,583)	(16,057,644)
Net realized and unrealized loss from investments, cash equivalents, and credit facility	(37,524,653)	(16,268,535)
Net decrease in net assets resulting from operations	\$ (31,756,724)	\$ (11,536,656)
Loss per common share (see note 6)	\$ (1.51)	\$ (0.54)

SEE NOTES TO FINANCIAL STATEMENTS

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PENNANTPARK INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Three months ended	
	December 31, 2008	December 31, 2007
Increase (decrease) in net assets from operations:		
Net investment income	\$ 5,767,929	\$ 4,731,879
Net realized loss on investments and cash equivalents	(887,070)	(210,891)
Net change in unrealized depreciation on investments, cash equivalents, and credit facility	(36,637,583)	(16,057,644)
Net decrease in net assets resulting from operations	(31,756,724)	(11,536,656)
Dividends to Stockholders:		
Dividends from net investment income	(5,056,505)	(4,635,130)
Total dividends	(5,056,505)	(4,635,130)
Capital Share Transactions:		
Cumulative effect of adoption of fair value option (credit facility) (see note 8)	41,796,000	
Net increase in net assets resulting from Capital Share Transactions	41,796,000	
Total increase (decrease) in net assets	4,982,771	(16,171,786)
Net Assets:		
Beginning of period	210,728,260	270,393,094
End of period	\$ 215,711,031	\$ 254,221,308
Undistributed (distribution in excess) of net investment income, at period end	108,764	(100,020)

SEE NOTES TO FINANCIAL STATEMENTS

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

	Three Months Ended	
	December 31, 2008	December 31, 2007
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	\$ (31,756,724)	\$ (11,536,656)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided (used) by operating activities:		
Change in net unrealized depreciation on investments, cash equivalents, and credit facility	36,637,583	16,057,644
Net realized loss on investments and cash equivalents	887,070	210,891
Net accretion of discount and amortization of premium	(524,615)	(229,966)
Purchase of investments	(803,896)	(70,955,314)
Payment-in-kind interest	(860,532)	(586,297)
Proceeds from disposition of investments	2,280,140	4,329,037
Decrease in interest receivable	215,927	253,897
Decrease in prepaid expenses and other assets	130,375	69,857
Decrease in payables for cash equivalents purchased		(173,353,042)
Decrease in payables for investments purchased		(16,583,921)
Increase (decrease) in unfunded investments	278,533	(898,684)
Increase in interest payable on credit facility	80,042	598,901
Increase (decrease) in management fee payable	1,734,292	(311,280)
Increase in performance-based incentive fee payable	1,318,949	46,304
Increase (decrease) in accrued expenses	391,700	(155,186)
Net cash provided (used) by operating activities	10,008,844	(253,043,815)
Cash flows from financing activities:		
Dividends and distributions to stockholders	(5,056,505)	(4,635,130)
Borrowings under credit facility (see note 12)	7,500,000	140,500,000
Repayments under credit facility (see note 12)	(52,100,000)	(59,000,000)
Net cash provided (used) by financing activities	(49,656,505)	76,864,870
Net decrease in cash and cash equivalents	(39,647,661)	(176,178,945)
Cash and cash equivalents, beginning of period	40,249,201	257,959,635
Cash and cash equivalents, end of period	\$ 601,540	\$ 81,780,690
Supplemental disclosure of cash flow information and non-cash financing activity:		
Interest paid	\$ 1,757,177	\$ 276,176
Cumulative effect of adoption of fair value option (credit facility)	\$ 41,796,000	\$

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PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2008

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par	Cost	Fair Value ⁽³⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies - 144.9%⁽¹⁾							
Subordinated Debt / Corporate Notes - 68.3%							
Advanstar, Inc.	11/30/2015	Other Media	8.46% ⁽⁶⁾	L+700	\$ 16,716,063	\$ 16,716,063	\$ 11,199,762
Affinion Group Holdings, Inc.	3/1/2012	Consumer Products	9.37% ⁽⁶⁾	L+625	22,500,000	21,654,714	16,492,500
Consolidated Foundries, Inc.	4/17/2015	Aerospace and Defense	14.25% ⁽⁶⁾		8,000,000	7,838,239	7,372,000
CT Technologies Intermediate Holdings, Inc.	3/19/2014	Business Services	14.00% ⁽⁶⁾		20,000,000	19,525,200	18,872,020
i2 Holdings Ltd.	6/6/2014	Aerospace and Defense	14.75% ⁽⁶⁾		22,194,219	21,839,760	22,194,219
IDQ Holdings, Inc.	5/20/2012	Auto Sector	13.75%		20,000,000	19,586,579	20,000,000
Learning Care Group, Inc.	12/28/2015	Education	13.50% ⁽⁶⁾		10,131,680	9,992,074	8,890,549
Realogy Corp.	4/15/2015	Buildings and Real Estate	12.38%		28,000,000	26,400,575	3,780,000
TZ Merger Sub, Inc.	10/1/2016	Insurance	13.50% ⁽⁶⁾		20,047,500	19,862,740	18,790,163
UP Acquisitions Sub Inc.	2/8/2015	Oil and Gas	13.50%		21,000,000	20,450,813	19,700,987
Total Subordinated Debt / Corporate Notes					188,589,462	183,866,757	147,292,200
Second Lien Secured Debt - 41.1%							
Brand Energy and Infrastructure Services, Inc.	2/7/2015	Energy / Utilities	8.25%	L+700	12,000,000	11,695,374	10,944,000
Brand Energy and Infrastructure Services, Inc.	2/7/2015	Energy / Utilities	8.14%	L+600	13,600,000	13,089,375	11,954,400
Generics International (U.S.), Inc.	4/30/2015	Healthcare, Education and Childcare	8.96%	L+750	12,000,000	11,949,100	10,428,000
Questex Media Group, Inc.	11/4/2014	Other Media	8.71%	L+650	10,000,000	10,000,000	7,100,000
Saint Acquisition Corp. ⁽⁵⁾	5/15/2015	Transportation	9.90%	L+775	10,000,000	9,955,768	812,500
Saint Acquisition Corp. ⁽⁵⁾	5/15/2017	Transportation	12.50%		19,000,000	16,658,601	1,733,750
Sheridan Holdings, Inc.	6/15/2015	Healthcare, Education and	10.39% ⁽⁶⁾	L+575	12,500,000	11,862,989	10,287,500

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		Childcare					
Specialized Technology	12/15/2014	Chemical, Plastics and	7.46% ⁽⁶⁾	L+700	22,500,000	22,486,468	21,667,500
Resources, Inc.		Rubber					
TransFirst Holdings, Inc.	6/15/2015	Financial Services	7.46% ⁽⁶⁾	L+600	16,500,000	15,889,869	13,777,500
Total Second Lien Secured Debt					128,100,000	123,587,544	88,705,150

				Shares			
Preferred Equity/Partnership Interests - 4.3%							
CFHC Holdings, Inc., Class A		Aerospace and Defense	12.00% ⁽⁶⁾		797	797,288	733,444
(Consolidated Foundries, Inc.)							
i2 Holdings Ltd.		Aerospace and Defense	12.00% ⁽⁶⁾		3,960,000	3,960,000	3,960,000
TZ Holdings, L.P., Series A		Insurance	⁽⁷⁾		686	685,820	651,529
(TZ Merger Sub, Inc.)							
TZ Holdings, L.P., Series B		Insurance	6.50% ⁽⁶⁾		1,312	1,312,006	1,246,406
(TZ Merger Sub, Inc.)							
UP Holdings Inc., Class A-1		Oil and Gas	8.00% ⁽⁶⁾		91,608	2,499,066	2,374,113
(UP Acquisitions Sub Inc.)							
VSS - AHC Holdings, L.L.C.		Other Media	20.00% ⁽⁶⁾		319	318,896	295,499
(Advanstar, Inc.)							
Total Preferred Equity					4,054,722	9,573,076	9,260,991

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PENNANTPARK INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2008

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Shares	Cost	Fair Value ⁽³⁾
Common Equity/Partnership Interest⁽⁷⁾ - 3.2%							
AHC Mezzanine (Advanstar, Inc.)		Other Media			3,000	\$ 3,000,000	\$ 179,005
CFHC Holdings, Inc., (Consolidated Foundries, Inc.)		Aerospace and Defense			1,627	16,271	0
CT Technologies Holdings, LLC (CT Technologies Intermediate Holdings, Inc.)		Business Services			5,556	3,200,000	2,880,000
i2 Holdings Ltd.		Aerospace and Defense			440,000	440,000	1,308,628
TZ Holdings, L.P. (TZ Merger Sub, Inc.)		Insurance			2	2,173	267,521
UP Holdings Inc. (UP Acquisitions Sub Inc.)		Oil and Gas			91,608	916	2,238,863
Total Common Equity/Partnership Interest					541,793	6,659,360	6,874,017
Equity Warrants⁽⁷⁾ - 0.1%							
VSS-AHC Holdings, L.L.C., expire 11/6/18 (Advanstar, Inc.)		Other Media	20.00%		85	0	119,337
First Lien Secured Debt - 27.9%							
Burlington Coat Factory Warehouse Corp.	5/28/2013	Retail Store	4.45%	L+225	\$ 7,896,473	7,889,518	3,382,320
Cohr Holdings, Inc.	1/31/2013	Healthcare, Education and Childcare	3.65%	L+250	2,947,500	2,947,500	1,311,638
EnviroSolutions, Inc.	8/7/2012	Environmental Services	10.50% ⁽⁶⁾	L+825 ⁽⁸⁾	14,049,991	13,071,204	13,445,841
EnviroSolutions, Inc.	8/7/2012	Environmental Services	10.50%	P+725	2,293	2,132	2,194
Gatehouse Media Operating, Inc.	8/28/2014	Media	4.53%	L+200	7,000,000	7,000,000	882,000
General Nutrition Centers, Inc.	9/16/2013	Retail Store	4.89%	L+225	3,401,440	3,403,138	2,812,991
	12/19/2013	Cargo Transport		⁽⁷⁾	6,912,500	6,912,500	4,087,016

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Greatwide Logistics Services, Inc.							
Greatwide Logistics Services, Inc.	12/19/2013	Cargo Transport	11.25%	P+600	221,467	213,071	212,609
(Debtor in Possession)							
Greatwide Logistics Services, Inc.	12/19/2013	Cargo Transport			278,533	278,533	267,391
(Debtor in Possession) ⁽⁹⁾							
Hanley- Wood, L.L.C.	3/8/2014	Other Media	4.08%	L+225	8,887,500	8,887,500	3,762,372
Hughes Network Systems, L.L.C.	4/15/2014	Telecommunications	4.69%	L+250	5,000,000	5,000,000	4,150,000
Jacuzzi Brands Corp.	2/7/2014	Home and Office	2.98%	L+225	9,872,298	9,872,298	4,911,468
		Furnishings, Housewares					
		and Durable Consumer					
		Products					
Levlad, L.L.C.	3/8/2014	Consumer Products	4.50%	L+225	4,552,978	4,552,978	1,784,767
Mattress Holding Corp.	1/18/2014	Home and Office	2.73%	L+225	3,940,125	3,940,125	1,477,547
		Furnishings, Housewares					
		and Durable Consumer					
		Products					
Mitchell International, Inc.	3/28/2014	Business Services	3.50%	L+200	3,930,000	3,930,000	3,183,300
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DECEMBER 31, 2008

(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par	Cost	Fair Value ⁽³⁾
First Lien Secured Debt - (Continued)							
National Bedding Co., L.L.C.	2/28/2013	Home and Office Furnishings, Housewares and Durable Consumer Products	3.75%	L+200	\$ 6,877,500	\$ 6,882,765	\$ 3,868,594
Penton Media, Inc.	2/1/2013	Other Media	5.63%	L+225	4,912,500	4,912,500	1,825,814
Philosophy, Inc.	3/16/2014	Consumer Products	2.47%	L+200	1,470,934	1,470,934	867,851
Questex Media Group, Inc.	5/4/2014	Other Media	5.21%	L+300	4,911,667	4,911,667	3,649,368
Reader s Digest Association, Inc.	3/2/2014	Printing and Publishing	4.08%	L+200	982,500	982,500	304,575
Rexnord , L.L.C.	7/19/2013	Manufacturing/Basic Industry	2.46%	L+200	2,910,152	2,910,152	2,540,563
Sitel, L.L.C.	1/30/2014	Business Services	9.28%	L+250	2,682,328	2,682,328	1,475,280
Total First Lien Secured Debt					103,640,679	102,653,343	60,205,499
Investments in Non-Controlled, Non-Affiliated Portfolio Companies						\$ 426,340,080	\$ 312,457,194
Investments in Non-Controlled, Affiliated Portfolio Companies - 7.6%⁽²⁾							
Subordinated Debt / Corporate Notes - 2.0%							
Performance Holdings, Inc.	7/2/2014	Leisure, Amusement, Motion Pictures, Entertainment	14.25% ⁽⁶⁾		4,571,617	4,355,758	3,991,022