

PENNANTPARK INVESTMENT CORP  
Form 10-Q  
August 07, 2017

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 JUNE 30, 2017

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)

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MARYLAND 20-8250744  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

590 Madison Avenue, 15<sup>th</sup> Floor

New York, N.Y. 10022  
(Address of principal executive offices) (Zip Code)

(212) 905-1000

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 7, 2017 was 71,060,836.

PENNANTPARK INVESTMENT CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

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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 I, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; “Taxable Subsidiaries” refers to PNNT Cascade Environmental Holdings, LLC, PNNT CI (Galls) Prime Investment Holdings, LLC, PNNT ecoserve, LLC, PNNT Investment Holdings, LLC and PNNT New Gulf Resources, LLC; “PennantPark Investment Advisers” or “Investment Adviser” refers to PennantPark Investment Advisers, LLC; “PennantPark Investment Administration” or “Administrator” refers to PennantPark Investment Administration, LLC; “SBA” refers to the Small Business Administration; “SBIC” refers to a small business investment company under the Small Business Investment Act of 1958, as amended, or the “1958 Act”; “Credit Facility” refers to our multi-currency, senior secured revolving credit facility, as amended and restated; “2025 Notes” refers to our 6.25% 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.

## Item 1. Consolidated Financial Statements

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	June 30, 2017 (unaudited)	September 30, 2016
<b>Assets</b>		
<b>Investments at fair value</b>		
Non-controlled, non-affiliated investments (cost—\$772,411,106 and \$805,189,545, respectively)	\$788,252,925	\$813,467,491
Non-controlled, affiliated investments (cost—\$183,090,652 and \$262,476,906, respectively)	185,505,287	215,192,547
Controlled, affiliated investments (cost—\$199,972,502 and \$186,290,695, respectively)	125,166,048	125,019,637
Total of investments (cost—\$1,155,474,260 and \$1,253,957,146, respectively)	1,098,924,260	1,153,679,675
Cash and cash equivalents (cost—\$103,099,629 and \$75,617,133, respectively)	103,196,132	75,608,113
Interest receivable	7,899,440	7,032,858
Receivable for investments sold	12,478,824	—
Prepaid expenses and other assets	5,150,297	2,615,232
<b>Total assets</b>	<b>1,227,648,953</b>	<b>1,238,935,878</b>
<b>Liabilities</b>		
Distributions payable	12,790,950	19,897,034
Credit Facility payable (cost—\$82,105,300 and \$50,339,700, respectively) (See Notes 5 and 10)	75,908,513	39,551,187
2019 Notes payable (par—\$250,000,000) (See Notes 5 and 10)	253,375,000	254,175,000
2025 Notes payable (par—zero and \$71,250,000, respectively) (See Notes 5 and 10)	—	72,618,000
SBA debentures payable, net (par—\$225,000,000 and \$197,500,000, respectively) (See Notes 5 and 10)	220,590,278	193,244,534
Base management fee payable, net (See Note 3)	4,907,784	5,074,830
Performance-based incentive fee payable, net (See Note 3)	1,140,859	2,865,444
Interest payable on debt	5,962,316	7,520,113
Accrued other expenses	797,471	622,880
<b>Total liabilities</b>	<b>575,473,171</b>	<b>595,569,022</b>
<b>Commitments and contingencies (See Note 11)</b>		
<b>Net assets</b>		
<b>Common stock, 71,060,836 shares issued and outstanding</b>		
Par value \$0.001 per share and 100,000,000 shares authorized	71,061	71,061
Paid-in capital in excess of par value	819,983,676	819,983,676
Undistributed net investment income	1,310,399	3,119,380

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Accumulated net realized loss on investments	(115,562,130 )	(84,771,820 )
Net unrealized depreciation on investments	(56,449,011 )	(100,280,954 )
Net unrealized depreciation on debt	2,821,787	5,245,513
Total net assets	\$652,175,782	\$643,366,856
Total liabilities and net assets	\$1,227,648,953	\$1,238,935,878
Net asset value per share	\$9.18	\$9.05

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June		Nine Months Ended June 30,	
	30, 2017	2016	2017	2016
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	\$21,366,729	\$26,432,244	\$67,329,174	\$81,300,064
Other income	946,587	2,151,427	4,614,740	9,679,096
From non-controlled, affiliated investments:				
Interest	3,750,616	3,458,232	12,416,683	8,956,381
Other income	1,587,435	61,094	1,609,935	80,521
From controlled, affiliated investments:				
Interest	3,432,952	3,436,797	10,697,690	9,895,449
Total investment income	31,084,319	35,539,794	96,668,222	109,911,511
Expenses:				
Base management fee (See Note 3)	5,842,601	6,190,579	18,449,890	18,811,434
Performance-based incentive fee (See Note 3)	1,358,165	4,039,292	8,375,564	12,607,547
Interest and expenses on debt (See Note 10)	6,723,980	7,005,077	20,638,611	20,674,327
Administrative services expenses (See Note 3)	894,000	898,167	2,682,000	2,666,167
Other general and administrative expenses	665,653	899,508	2,002,643	2,721,700
Expenses before Management Fees waiver and provision for taxes	15,484,399	19,032,623	52,148,708	57,481,175
Management Fees waiver (See Note 3)	(1,152,123 )	(1,636,779 )	(4,292,073 )	(5,027,041 )
Provision for taxes	425,000	350,000	1,275,000	2,000,000
Credit Facility amendment costs (See Notes 5 and 10)	3,866,633	—	3,866,633	—
Net expenses	18,623,909	17,745,844	52,998,268	54,454,134
Net investment income	12,460,410	17,793,950	43,669,954	55,457,377
Realized and unrealized gain (loss) on investments and debt:				
Net realized gain (loss) on investments	10,147,761	(45,507,467)	(30,790,310)	(82,092,448 )
Net change in unrealized (depreciation) appreciation on:				
Non-controlled, non-affiliated investments	(5,731,239 )	50,184,115	7,625,092	27,230,048
Non-controlled and controlled, affiliated investments	4,039,995	7,770,408	36,206,851	(25,134,320 )
Debt (appreciation) depreciation (See Notes 5 and 10)	(2,137,862 )	(2,408,132 )	(2,423,726 )	15,566,671
Net change in unrealized (depreciation) appreciation on investments and debt	(3,829,106 )	55,546,391	41,408,217	17,662,399
Net realized and unrealized gain (loss) from investments and debt	6,318,655	10,038,924	10,617,907	(64,430,049 )
Net increase (decrease) in net assets resulting from operations	\$18,779,065	\$27,832,874	\$54,287,861	\$(8,972,672 )



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Net increase (decrease) in net assets resulting from operations per common share (See Note 7)	\$0.26	\$0.39	\$0.77	\$(0.12)
Net investment income per common share	\$0.18	\$0.25	\$0.61	\$0.77

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Nine Months Ended June 30,	
	2017	2016
Net increase (decrease) in net assets from operations:		
Net investment income	\$43,669,954	\$55,457,377
Net realized loss on investments	(30,790,310 )	(82,092,448 )
Net change in unrealized appreciation on investments	43,831,943	2,095,728
Net change in unrealized (appreciation) depreciation on debt	(2,423,726 )	15,566,671
Net increase (decrease) in net assets resulting from operations	54,287,861	(8,972,672 )
Distributions to stockholders:	(45,478,935 )	(59,882,867 )
Capital transactions:		
Repurchase of common stock	—	(12,180,491 )
Net increase (decrease) in net assets	8,808,926	(81,036,030 )
Net assets:		
Beginning of period	643,366,856	716,590,542
End of period	\$652,175,782	\$635,554,512
Undistributed (distributions in excess of) net investment income, at end of period	\$1,310,399	\$(17,850,376 )
Capital share activity:		
Shares of common stock repurchased	—	(1,905,207 )

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	\$54,287,861	\$(8,972,672 )
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities:		
Net change in net unrealized appreciation on investments	(43,831,943 )	(2,095,728 )
Net change in unrealized appreciation (depreciation) on debt	2,423,726	(15,566,671 )
Net realized loss on investments	30,790,310	82,092,448
Net accretion of discount and amortization of premium	(2,327,068 )	(3,992,102 )
Purchases of investments	(378,816,543)	(307,264,571)
Payment-in-kind income	(17,060,002 )	(10,392,583 )
Proceeds from dispositions of investments	465,353,962	304,104,246
Amortization of deferred financing costs	512,619	455,540
(Increase) decrease in interest receivable	(866,582 )	193,400
Increase in receivable for investments sold	(12,478,824 )	—
(Increase) decrease in prepaid expenses and other assets	(2,535,065 )	5,226,264
Decrease in payable for investments purchased	—	(3,591,177 )
Decrease in interest payable on debt	(1,557,797 )	(1,260,933 )
Decrease in base management fee payable, net	(167,046 )	(1,401,942 )
Decrease in performance-based incentive fee payable, net	(1,724,585 )	(1,614,787 )
Increase (decrease) in accrued other expenses	174,591	(1,711,098 )
Net cash provided by operating activities	92,177,614	34,207,634
Cash flows from financing activities:		
Repurchase of common stock	—	(12,180,491 )
Distributions paid to stockholders	(52,585,018 )	(60,416,325 )
Borrowings under SBA debentures	27,500,000	47,500,000
Repayments under 2025 Notes	(71,250,000 )	—
Capitalized borrowing costs	(666,875 )	(1,151,875 )
Borrowings under Credit Facility	363,760,000	365,664,923
Repayments under Credit Facility	(331,994,400)	(385,385,300)
Net cash used in financing activities	(65,236,293 )	(45,969,068 )
Net increase (decrease) in cash equivalents	26,941,321	(11,761,434 )
Effect of exchange rate changes on cash	646,698	15,032
Cash and cash equivalents, beginning of period	75,608,113	49,619,256
Cash and cash equivalents, end of period	\$103,196,132	\$37,872,854
Supplemental disclosure of cash flow information:		
Interest paid	\$21,683,789	\$21,479,719

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Taxes paid	\$1,280,898	\$2,154,226
Non-cash exchanges and conversions	\$37,712,296	\$60,438,396

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED SCHEDULE OF INVESTMENTS

JUNE 30, 2017

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point		Par / Shares	Cost	Fair Value <sup>(3)</sup>
				Spread	Above Index <sup>(4)</sup>			
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—120.9% <sup>(2)</sup>								
First Lien Secured Debt—46.1%								
ACC of Tamarac, LLC	06/20/2022	Telecommunications	10.77 %	L+950		7,500,000	\$7,350,868	\$7,350,000
Bottom Line Systems, LLC	02/13/2022	Healthcare, Education and Childcare	8.80 %	L+750		19,900,000	19,614,550	19,675,001
Broder Bros., Co., Tranche A	06/03/2022	Consumer Products	7.05 %	L+575		8,454,352	8,327,362	8,475,488
Broder Bros., Co., Tranche B	06/03/2022	Consumer Products	13.55 %	L+1,225		8,761,235	8,623,984	8,783,138
Cano Health, LLC	12/23/2022	Healthcare, Education and Childcare	11.06 %	L+1,000		19,522,688	19,058,944	19,522,688
Cano Health, LLC (Revolver) <sup>(8)</sup>	12/22/2022	Healthcare, Education and Childcare	—	—		900,000	—	—
DermaRite Industries LLC	03/03/2022	Manufacturing / Basic Industries	8.30 %	L+700		9,975,000	9,832,201	9,893,191
Hollander Sleep Products, LLC	06/09/2022	Consumer Products	9.10 %	L+800		22,500,000	22,051,999	22,050,000
Home Town Cable TV, LLC	06/20/2022	Telecommunications	10.77 %	L+950		10,000,000	9,800,809	9,800,000
Interior Specialists, Inc.	06/30/2022	Building Materials	9.06 %	L+800		24,599,092	24,439,441	24,599,092
Juniper Landscaping of Florida, LLC	12/22/2022	Personal, Food and Miscellaneous Services	10.56 %	L+950		14,083,875	13,824,916	14,048,665
Juniper Landscaping of Florida, LLC	12/22/2022	Personal, Food and Miscellaneous Services	10.61 %	L+950		720,000	720,000	720,000

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(Revolver)							
Juniper Landscaping of Florida, LLC (Revolver) <sup>(8)</sup>	12/22/2020	Personal, Food and Miscellaneous Services	—	—	2,880,000	—	—
K2 Pure Solutions NoCal, L.P.	02/19/2020	Chemicals, Plastics and Rubber	10.23	% L+900	14,522,529	14,285,881	14,359,545
One Sixty Over Ninety, LLC	03/03/2020	Media	10.51	% L+921	16,250,000	15,940,214	16,087,500
Prince Mineral Holding Corp. <sup>(5)</sup>	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50	% —	14,250,000	14,178,706	14,606,250
Robertshaw US Holding Corp.	06/18/2020	Electronics	8.50	% L+700	15,631,457	15,578,747	15,616,373
Sunborn Oy, Sunborn Saga Oy <sup>(9), (11), (12)</sup>	06/28/2020	Hotels, Motels, Inns and Gaming	11.50	% L+1,050	€29,885,887	30,881,670	34,171,564
				(PIK %)			
				3.50			
Triad Manufacturing, Inc.	12/28/2020	Manufacturing / Basic Industries	12.48	% L+1,125	25,337,545	24,956,129	25,337,545
Trust Inns Limited <sup>(9), (11), (12)</sup>	02/12/2020	Buildings and Real Estate	10.80	% L+1,050	£20,820,895	33,487,114	27,315,839
US Med Acquisition, Inc.	08/13/2020	Healthcare, Education and Childcare	10.30	% L+900	8,585,938	8,585,938	8,414,219
Total First Lien Secured Debt						301,539,473	300,826,098
Second Lien Secured Debt—57.6%							
Acre Operating Company, LLC	12/12/2020	Electronics	10.67	% L+950	38,800,000	38,149,962	38,800,000
Balboa Capital Corporation <sup>(12)</sup>	03/04/2020	Financial Services	13.75	% —	28,500,000	28,279,535	28,500,000
Harbortouch Payments, LLC	10/11/2020	Financial Services	10.73	% L+950	18,900,000	18,574,663	18,900,000
Howard Berger Co. LLC	09/30/2020	Distribution	11.30	% L+1,000	42,375,000	40,828,535	40,256,250
				(PIK %)			
				5.25			
Infogroup, Inc.	04/03/2020	Other Media	10.40	% L+925	20,400,000	20,003,304	20,196,000
Intermediate Transportation 100, LLC <sup>(5)</sup>	03/01/2020	Air Cargo Transport	11.00	% —	409,672	298,661	409,672
				(PIK %)			
				11.00			
MailSouth, Inc.	10/22/2020	Printing and Publishing	11.65	% L+1,050	26,425,000	25,984,206	26,689,250
Novitex Acquisition, LLC	07/07/2020	Business Services	12.32	% L+1,100	44,625,000	44,157,954	43,732,500
Parq Holdings Limited Partnership <sup>(9), (12)</sup>	12/17/2020	Hotels, Motels, Inns and Gaming	13.23	% L+1,200	75,000,000	75,000,000	76,642,695
	07/01/2020		10.25	% L+900	62,750,000	62,264,429	62,985,312

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Pre-Paid Legal Services, Inc.		Personal, Food and Miscellaneous Services						
Veritext Corp.	01/30/2013	Business Services	10.30 %	L+900	18,834,375	18,335,071	18,457,689	
Total Second Lien Secured Debt						371,876,320	375,569,368	
Subordinated Debt/Corporate Notes—10.5%								
Cascade Environmental LLC	08/20/2011	Environmental Services	12.00 %	—	32,675,553	32,132,274	32,430,486	
Credit Infonet, Inc.	10/26/2010	Personal, Food and Miscellaneous Services	13.00 %	—	11,131,090	10,919,090	11,045,140	
			(PIK %)					
			0.75					
Goldsun Trading Limited (9), (11), (12)	02/19/2011	Healthcare, Education and Childcare	18.50 %	L+1,400	£8,872,798	12,959,460	11,525,356	
			(PIK %)					
			10.00					
Sonny's Enterprises, LLC	06/01/2012	Manufacturing / Basic Industries	11.00 %	—	13,300,000	13,044,965	13,300,000	
Total Subordinated Debt/Corporate Notes						69,055,789	68,300,982	
Preferred Equity/Partnership Interests—0.9%								
AH Holdings, Inc.	—	Healthcare, Education and Childcare	6.00 %	—	211	500,000	337,664	
Alegeus Technologies Holdings Corp.	—	Financial Services	—	—	949	949,050	1,138,219	
Convergint Technologies Holdings, LLC	—	Electronics	8.00 %	—	2,375	2,088,121	2,509,939	
HW Holdco, LLC	—	Other Media	8.00 %	—	3,591	—	33,580	
Roto Holdings, Inc.	—	Manufacturing / Basic Industries	9.00 %	—	1,197	1,197,000	1,469,970	
Total Preferred Equity/Partnership Interests								