

PennantPark Floating Rate Capital Ltd.

Form 10-Q

May 09, 2013

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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 MARCH 31, 2013

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: 814-00891

PENNANTPARK FLOATING RATE CAPITAL LTD.

(Exact name of registrant as specified in its charter)

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MARYLAND (State or other jurisdiction of incorporation or organization)	27-3794690 (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 (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, 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 May 9, 2013 was 10,302,912.

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PENNANTPARK FLOATING RATE CAPITAL LTD.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2013

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PART I CONSOLIDATED FINANCIAL INFORMATION

We are filing this 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, except where the context suggests otherwise, the terms Company, we, our or us refer to PennantPark Floating Rate Capital Ltd. and its consolidated subsidiary; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC; 1940 Act refers to the Investment Company Act of 1940, as amended; Code refers to the Internal Revenue Code of 1986, as amended; RIC refers to a regulated investment company under the Code; BDC refers to a business development company under the 1940 Act. References to our portfolio, our investments, our senior secured revolving credit facility, as amended, or the Credit Facility, and our business include investments we make through our wholly owned consolidated subsidiary PennantPark Floating Rate Funding I, LLC, or Funding I.

Table of Contents**Item 1. Consolidated Financial Statements****PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	March 31, 2013 (unaudited)	September 30, 2012
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$183,536,973 and \$171,578,009, respectively)	\$ 183,869,762	\$ 171,834,400
Cash equivalents (See Note 7)	2,725,248	3,845,803
Interest receivable	1,231,099	1,388,867
Receivable for investments sold		986,278
Prepaid expenses and other assets	50,735	311,313
Total assets	187,876,844	178,366,661
Liabilities		
Distributions payable	599,476	548,053
Payable for investments purchased	11,852,369	3,357,500
Credit Facility payable (cost \$34,200,000 and \$75,500,000, respectively) (See Notes 5 and 9)	34,200,000	75,122,500
Interest payable on Credit Facility	153,476	161,550
Management fee payable (See Note 3)	456,637	424,747
Performance-based incentive fee payable (See Note 3)	876,067	506,314
Accrued other expenses	859,334	447,120
Accrued sales load charges (See Note 3)		2,055,000
Total liabilities	48,997,359	82,622,784
Net Assets		
Common stock, 9,851,151 and 6,850,667 shares are issued and outstanding, respectively. Par value \$0.001 per share and 100,000,000 shares authorized	9,851	6,851
Paid-in capital in excess of par value	136,796,167	95,192,222
Distributions in excess of net investment income	(1,030,705)	(1,313,000)
Accumulated net realized gain on investments	2,771,383	1,223,913
Net unrealized appreciation on investments	332,789	256,391
Net unrealized depreciation on Credit Facility		377,500
Total net assets	\$ 138,879,485	\$ 95,743,877
Total liabilities and net assets	\$ 187,876,844	\$ 178,366,661
Net asset value per share	\$ 14.10	\$ 13.98

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	\$ 3,976,016	\$ 2,824,557	\$ 7,614,243	\$ 5,267,364
Other income	163,861	119,173	488,307	143,394
Total investment income	4,139,877	2,943,730	8,102,550	5,410,758
Expenses:				
Base management fee (See Note 3)	456,637	370,352	915,623	686,197
Performance-based incentive fee (See Note 3)	563,191	175,740	980,220	175,740
Interest and expenses on the Credit Facility (See Note 9)	495,395	342,496	966,463	621,476
Administrative services expenses (See Note 3)	153,679	149,624	308,824	287,959
Other general and administrative expenses	271,709	360,618	639,209	719,587
Expenses before excise tax expense and amendment costs	1,940,611	1,398,830	3,810,339	2,490,959
Excise tax	33,341		67,413	
Credit Facility amendment costs (See Note 9)	500,000		500,000	
Total expenses	2,473,952	1,398,830	4,377,752	2,490,959
Net investment income	1,665,925	1,544,900	3,724,798	2,919,799
Realized and unrealized gain (loss) on investments and Credit Facility:				
Net realized gain on non-controlled, non-affiliated investments	1,104,627	95,712	1,547,470	405,887
Net change in unrealized appreciation (depreciation) on:				
Non-controlled, non-affiliated investments	435,183	2,996,463	76,398	4,065,554
Credit Facility (appreciation) depreciation (See Note 5)		(112,000)	(377,500)	239,000
Net change in unrealized appreciation (depreciation) on investments and Credit Facility	435,183	2,884,463	(301,102)	4,304,554
Net realized and unrealized gain from investments and Credit Facility	1,539,810	2,980,175	1,246,368	4,710,441
Net increase in net assets resulting from operations	\$ 3,205,735	\$ 4,525,075	\$ 4,971,166	\$ 7,630,240
Basic - Net increase in net assets resulting from operations per common share (See Note 6)				
	\$ 0.45	\$ 0.66	\$ 0.72	\$ 1.12
Basic - Net investment income per common share	\$ 0.24	\$ 0.23	\$ 0.54	\$ 0.43
Diluted - Net increase in net assets resulting from operations per common share (See Note 6)				
	\$ 0.45	\$ 0.66	\$ 0.71	\$ 1.12
Diluted - Net investment income per common share	\$ 0.24	\$ 0.23	\$ 0.53	\$ 0.43

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****(Unaudited)**

	Six Months Ended March 31,	
	2013	2012
Net increase in net assets from operations:		
Net investment income	\$ 3,724,798	\$ 2,919,799
Net realized gain on investments	1,547,470	405,887
Net change in unrealized appreciation on investments	76,398	4,065,554
Net change in unrealized (appreciation) depreciation on Credit Facility	(377,500)	239,000
Net increase in net assets resulting from operations	4,971,166	7,630,240
Distributions to stockholders:		
Distributions	(3,442,503)	(2,980,040)
Capital transactions:		
Public offering and distributions reinvested	42,006,945	
Offering costs	(400,000)	
Net increase in net assets	43,135,608	4,650,200
Net assets:		
Beginning of period	95,743,877	92,072,105
End of period	\$ 138,879,485	\$ 96,722,305
Distributions in excess of net investment income, end of period	\$ (1,030,705)	\$ (1,452,769)
Capital share activity:		
Shares issued from public offering	3,000,000	
Shares issued from reinvestment of dividends	484	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 4,971,166	\$ 7,630,240
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used for) operating activities:		
Net change in unrealized appreciation on investments	(76,398)	(4,065,554)
Net change in unrealized appreciation (depreciation) on Credit Facility	377,500	(239,000)
Net realized gain on investments	(1,547,470)	(405,887)
Net accretion of discount and amortization of premium	(565,957)	(333,296)
Purchase of investments	(83,971,182)	(72,216,125)
Payments-in-kind interest	(101,480)	(47,292)
Proceeds from dispositions of investments	74,227,125	41,604,263
Decrease (increase) in interest receivable	157,768	(353,235)
Decrease in receivables for investments sold	986,278	2,467,500
Decrease in prepaid expenses and other assets	260,578	112,632
Increase in payables for investments purchased	8,494,869	1,788,630
(Decrease) increase in interest payable on Credit Facility	(8,074)	192,249
Increase in management fee payable	31,890	103,920
Increase in performance-based incentive fee payable	369,753	175,740
Increase in accrued other expenses	412,214	242,912
Net cash provided by (used for) operating activities	4,018,580	(23,342,303)
Cash flows from financing activities:		
Public offering	42,000,000	
Offering costs	(400,000)	
Deferred sales load paid	(2,055,000)	
Distributions paid to stockholders	(3,384,135)	(2,945,787)
Borrowings under Credit Facility (See Notes 5 and 9)	45,250,000	54,050,000
Repayments under Credit Facility (See Notes 5 and 9)	(86,550,000)	(30,900,000)
Net cash (used for) provided by financing activities	(5,139,135)	20,204,213
Net decrease in cash equivalents	(1,120,555)	(3,138,090)
Cash equivalents, beginning of period	3,845,803	6,987,450
Cash equivalents, end of period	\$ 2,725,248	\$ 3,849,360
Supplemental disclosure of cash flow information:		
Interest paid	\$ 974,538	\$ 429,227
Excise taxes paid	\$ 79,140	\$ 842
Dividend reinvested	\$ 6,945	\$

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS****MARCH 31, 2013****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽¹⁾	Par / Shares	Cost	Fair Value ⁽²⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 132.4%^{(3),(4)}							
First Lien Secured Debt 115.0%							
ALG USA Holdings, LLC	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575	8,500,000	\$ 8,429,233	\$ 8,415,000
ARC Auto Group, Inc.	11/15/2018	Automotive	6.25%	L+500	2,543,625	2,519,876	2,563,763
Aspen Dental Management, Inc. ⁽⁸⁾	10/06/2016	Consumer Services	7.00%	L+550	2,962,500	2,930,850	2,836,594
ATI Holdings, Inc. ⁽⁸⁾	12/21/2019	Healthcare and Pharmaceuticals	5.75%	L+450	2,992,500	2,963,147	3,033,647
Attachmate Corporation	11/22/2017	High Tech Industries	7.25%	L+575	2,831,250	2,784,237	2,854,843
Autoparts Holdings Limited	07/31/2017	Automotive	6.50%	L+500	964,483	960,942	976,137
BBB Industries, LLC	03/27/2019	Automotive	5.50%	L+425	3,000,000	2,975,000	3,000,000
Berlin Packaging L.L.C. ⁽⁸⁾	03/28/2019	Containers, Packaging and Glass	4.75%	L+350	2,000,000	1,990,000	1,990,000
DCS Business Services, Inc.	03/19/2018	Business Services	7.25%	L+575	3,714,375	3,658,259	3,658,659
Document Technologies, Inc.	12/03/2018	Business Services	5.50%	L+425	980,988	973,177	976,083
DS Waters of America, Inc.	08/29/2017	Beverage, Food and Tobacco	10.50%	L+900	3,960,000	3,892,574	4,059,000
EAG, Inc.	07/28/2017	Business Services	6.75%	P+350	925,363	921,835	923,050
Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)	05/17/2018	Media: Broadcasting and Subscription	6.00%	L+475	962,813	962,812	966,423
EIG Investors Corp.	11/12/2019	High Tech Industries	6.25%	L+500	1,995,000	1,976,242	2,004,975
Emerald Performance Materials, LLC	05/18/2018	Chemicals, Plastics and Rubber	6.75%	L+550	2,482,496	2,463,517	2,494,909
eResearchtechnology, Inc.	05/02/2018	Healthcare and Pharmaceuticals	6.00%	L+475	2,985,019	2,970,201	3,014,869
Fishnet Security, Inc.	11/30/2017	High Tech Industries	7.75%	L+650	2,992,500	2,963,909	2,992,500
GFA Brands, Inc.	07/02/2018	Beverage, Food and Tobacco	7.00%	L+575	1,940,000	1,905,699	1,961,825
Graton Economic Development Authority ^{(5), (8)}	09/02/2019	Hotel, Gaming and Leisure	9.63%		3,000,000	3,000,000	3,360,000
GSE Environmental, Inc. ⁽⁸⁾	05/27/2016	Environmental Industries	7.00%	L+550	2,949,343	2,940,257	2,934,596
HMK Intermediate Holdings LLC	04/01/2019	Retail	7.25%	L+600	2,970,000	2,918,581	2,992,275
Howard Berger Co. LLC ⁽⁸⁾	08/03/2017	Wholesale	7.00%	L+575	2,729,375	2,694,461	2,702,081
IDQ Holdings, Inc. ^{(5), (8)}	03/30/2017	Automotive	11.50%		2,000,000	1,966,362	2,200,000
Ikaria Acquisition Inc.	06/22/2016	Healthcare and Pharmaceuticals	7.75%	L+650	1,691,500	1,683,717	1,708,415
InfuSystem Holdings, Inc.	11/30/2016	Healthcare and Pharmaceuticals	11.99%	P+625	2,175,000	2,175,000	2,229,812
Instant Web, Inc.	08/07/2014	Media: Advertising, Printing and Publishing	3.58% ⁽⁹⁾	L+338	6,836,508	6,621,979	4,785,555
Jackson Hewitt Tax Service Inc.	10/16/2017	Consumer Services	10.00%	L+850	3,400,000	3,273,298	3,349,000
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.50%	P+725	5,909,957	5,945,073	5,880,407
KIK Custom Products Inc. ^{(6), (8)}	06/02/2014	Consumer Goods: Non-Durable	8.50%	L+700	4,912,500	4,848,463	4,875,656
Milk Specialties Company	11/09/2018	Consumer Goods: Non-Durable	7.00%	L+475	3,400,000	3,368,102	3,434,000
MModal Inc. ⁽⁸⁾	08/16/2019	Business Services	6.75%	L+550	3,383,191	3,337,786	3,247,863
Mood Media Corporation ⁽⁶⁾	05/07/2018	Media: Diversified and Production	7.00%	L+550	2,360,522	2,342,587	2,358,752
MOSAID Technologies Incorporated ⁽⁶⁾	12/23/2016	High Tech Industries	8.50%	L+700	2,775,000	2,721,385	2,788,875
MX USA, Inc.	05/01/2017	Healthcare and Pharmaceuticals	6.50%	L+525	2,970,000	2,933,577	2,977,425
NAB Holdings, LLC	04/24/2018	Banking, Finance, Insurance and Real Estate	7.00%	L+550	962,500	950,224	972,125
Northfield Park Associates LLC	12/19/2018	Hotel, Gaming and Leisure	9.00%	L+775	4,500,000	4,414,105	4,601,250
Orbitz Worldwide, Inc., Term Loan C ⁽⁸⁾	03/25/2019	Transportation: Consumer	8.00%	L+675	4,000,000	3,960,084	4,038,332
Pelican Products, Inc.	07/11/2018	Containers, Packaging and Glass					