

PennantPark Floating Rate Capital Ltd.

Form 10-Q

August 09, 2016

[Table of Contents](#)

**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, 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: 814-00891**

**PENNANTPARK FLOATING RATE CAPITAL LTD.**

**(Exact name of registrant as specified in its charter)**

**MARYLAND**  
(State or other jurisdiction of incorporation or organization)

**27-3794690**  
(I.R.S. Employer Identification No.)

**590 Madison Avenue, 15<sup>th</sup> 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, 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 August 9, 2016 was 26,730,074.

**Table of Contents**

**PENNANTPARK FLOATING RATE CAPITAL LTD.  
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016**

**TABLE OF CONTENTS**

**PART I. CONSOLIDATED FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements**

<u>Consolidated Statements of Assets and Liabilities as of June 30, 2016 (unaudited) and September 30, 2015</u>	4
<u>Consolidated Statements of Operations for the three and nine months ended June 30, 2016 and 2015 (unaudited)</u>	5
<u>Consolidated Statements of Changes in Net Assets for the nine months ended June 30, 2016 and 2015 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended June 30, 2016 and 2015 (unaudited)</u>	7
<u>Consolidated Schedules of Investments as of June 30, 2016 (unaudited) and September 30, 2015</u>	8
<u>Notes to Consolidated Financial Statements (unaudited)</u>	14
<u>Report of Independent Registered Public Accounting Firm</u>	24
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	25
<b><u>Item 3. Quantitative And Qualitative Disclosures About Market Risk</u></b>	32
<b><u>Item 4. Controls and Procedures</u></b>	32

**PART II. OTHER INFORMATION**

<b><u>Item 1. Legal Proceedings</u></b>	33
<b><u>Item 1A. Risk Factors</u></b>	33
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	33
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	33
<b><u>Item 4. Mine Safety Disclosures</u></b>	33
<b><u>Item 5. Other Information</u></b>	33
<b><u>Item 6. Exhibits</u></b>	34
<b><u>SIGNATURES</u></b>	35

**Table of Contents**

**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, except where the context suggests otherwise, the terms Company, we, our or us refer to PennantPark Floating Rate Capital Ltd. and its wholly-owned consolidated subsidiaries; Funding I refers to PennantPark Floating Rate Funding I, LLC; 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 multi-currency, senior secured revolving credit facility, as amended and restated, or the Credit Facility, and our business include investments we make through our subsidiaries.

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

	<b>June 30, 2016</b> <b>(unaudited)</b>	<b>September 30, 2015</b>
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost \$557,185,402 and \$394,561,175, respectively)	\$ 550,999,281	\$ 388,535,383
Controlled, affiliated investments (cost \$0 and \$2,777,132, respectively)		2,776,507
<b>Total of investments (cost \$557,185,402 and \$397,338,307, respectively)</b>	<b>550,999,281</b>	<b>391,311,890</b>
Cash and cash equivalents (cost \$16,767,271 and \$21,428,514, respectively)	16,790,402	21,428,514
Interest receivable	3,201,502	1,959,404
Prepaid expenses and other assets	1,693,258	1,420,529
<b>Total assets</b>	<b>572,684,443</b>	<b>416,120,337</b>
<b>Liabilities</b>		
Distributions payable	2,539,357	2,539,357
Payable for investments purchased	9,833,911	9,367,500
Credit Facility payable (cost \$190,907,500 and \$29,600,000, respectively) (See Notes 5 and 10)	190,374,979	29,600,000
Interest payable on Credit Facility	448,899	224,633
Management fee payable (See Note 3)	1,297,596	956,115
Performance-based incentive fee payable (See Note 3)	497,716	2,936
Accrued other expenses	53,352	539,347
<b>Total liabilities</b>	<b>205,045,810</b>	<b>43,229,888</b>
Commitments and contingencies (See Note 11)		
<b>Net assets</b>		
Common stock, 26,730,074 shares issued and outstanding. Par value \$0.001 per share and 100,000,000 shares authorized.	26,730	26,730
Paid-in capital in excess of par value	371,502,801	371,502,801
Undistributed net investment income	3,317,806	6,991,473
Accumulated net realized (loss) gain on investments	(1,578,235)	395,862
Net unrealized depreciation on investments	(6,162,990)	(6,026,417)
Net unrealized depreciation on Credit Facility	532,521	

<b>Total net assets</b>	\$	367,638,633	\$	372,890,449
<b>Total liabilities and net assets</b>	\$	572,684,443	\$	416,120,337
<b>Net asset value per share</b>	\$	13.75	\$	13.95

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Investment income:</b>				
From non-controlled, non-affiliated investments:				
Interest	\$ 10,555,165	\$ 6,940,910	\$ 28,794,610	\$ 21,457,084
Other income	226,431	163,377	2,005,698	1,107,182
From controlled, affiliated investments:				
Interest	21,429		105,502	
<b>Total investment income</b>	<b>10,803,025</b>	<b>7,104,287</b>	<b>30,905,810</b>	<b>22,564,266</b>
<b>Expenses:</b>				
Base management fee (See Note 3)	1,297,595	881,953	3,556,451	2,616,499
Performance-based incentive fee (See Note 3)	497,716	630,806	1,336,660	1,662,731
Interest and expenses on the Credit Facility (See Note 10)	1,276,288	785,899	3,338,863	2,447,632
Administrative services expenses (See Note 3)	200,000	223,500	600,000	673,000
Other general and administrative expenses	701,555	212,672	1,985,568	650,422
<b>Expenses before provision for taxes and amendment costs</b>	<b>3,973,154</b>	<b>2,734,830</b>	<b>10,817,542</b>	<b>8,050,284</b>
Provision for taxes		110,000		330,000
Credit Facility amendment costs (See Notes 5 and 10)		162,311	907,722	162,311
<b>Total expenses</b>	<b>3,973,154</b>	<b>3,007,141</b>	<b>11,725,264</b>	<b>8,542,595</b>
Net investment income	6,829,871	4,097,146	19,180,546	14,021,671
<b>Realized and unrealized gain (loss) on investments and Credit Facility:</b>				
Net realized gain (loss) on non-controlled, non-affiliated investments	189,623	(11,319)	(1,974,097)	413,535
Net change in unrealized appreciation (depreciation) on:				
Non-controlled, non-affiliated investments	6,082,410	662,950	(136,573)	(3,379,490)
Credit Facility depreciation (appreciation) (See Note 5)	317,438	(22,000)	532,521	233,750
	6,399,848	640,950	395,948	(3,145,740)

**Net change in unrealized (depreciation)  
appreciation on investments and Credit Facility**

<b>Net realized and unrealized gain (loss) from investments and Credit Facility</b>	6,589,471	629,631	(1,578,149)	(2,732,205)
---	-----------	---------	-------------	-------------

<b>Net increase in net assets resulting from operations</b>	\$ 13,419,342	\$ 4,726,777	\$ 17,602,397	\$ 11,289,466
---	---------------	--------------	---------------	---------------

Net increase in net assets resulting from operations per common share (See Note 7)	\$ 0.50	\$ 0.32	\$ 0.66	\$ 0.76
---	---------	---------	---------	---------

Net investment income per common share	\$ 0.26	\$ 0.28	\$ 0.72	\$ 0.94
--	---------	---------	---------	---------

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

	<b>Nine Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net increase in net assets from operations:</b>		
Net investment income	\$ 19,180,546	\$ 14,021,671
Net realized (loss) gain on investments	(1,974,097)	413,535
Net change in unrealized depreciation on investments	(136,573)	(3,379,490)
Net change in unrealized depreciation on Credit Facility	532,521	233,750
<b>Net increase in net assets resulting from operations</b>	<b>17,602,397</b>	<b>11,289,466</b>
<b>Distributions to stockholders</b>	<b>(22,854,213)</b>	<b>(12,365,386)</b>
<b>Net decrease in net assets</b>	<b>(5,251,816)</b>	<b>(1,075,920)</b>
<b>Net assets:</b>		
Beginning of period	372,890,449	214,527,710
End of period	\$ 367,638,633	\$ 213,451,790
Undistributed net investment income, end of period	\$ 3,317,806	\$ 6,534,376

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>Nine Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 17,602,397	\$ 11,289,466
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used) provided by operating activities:		
Net change in unrealized depreciation on investments	136,573	3,379,490
Net change in unrealized depreciation on Credit Facility	(532,521)	(233,750)
Net realized loss (gain) on investments	1,974,097	(413,535)
Net accretion of discount and amortization of premium	(1,263,787)	(919,802)
Purchases of investments	(257,653,704)	(160,986,701)
Payment-in-kind interest	(92,262)	(322,041)
Proceeds from dispositions of investments	97,092,286	146,165,582
Increase in interest receivable	(1,242,098)	(209,853)
Decrease in receivable for investments sold		7,998,188
Increase in prepaid expenses and other assets	(272,729)	(599,457)
Increase in payable for investments purchased	466,411	12,919,850
Increase (decrease) in interest payable on Credit Facility	224,266	(22,655)
Increase (decrease) in management fee payable	341,481	(33,025)
Increase (decrease) in performance-based incentive fee payable	494,780	(1,129,430)
Decrease in accrued other expenses	(485,995)	(529,627)
Net cash (used) provided by operating activities	(143,210,805)	16,352,700
<b>Cash flows from financing activities:</b>		
Distributions paid to stockholders	(22,854,213)	(12,290,896)
Borrowings under Credit Facility (See Notes 5 and 10)	196,807,500	103,400,000
Repayments under Credit Facility (See Notes 5 and 10)	(35,500,000)	(110,100,000)
Net cash provided (used) by financing activities	138,453,287	(18,990,896)
<b>Net decrease in cash equivalents</b>	<b>(4,757,518)</b>	<b>(2,638,196)</b>
Effect of exchange rate changes on cash	119,406	
<b>Cash and cash equivalents, beginning of period</b>	<b>21,428,514</b>	<b>13,113,817</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 16,790,402</b>	<b>\$ 10,475,621</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 3,114,597	\$ 2,470,287

Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

Taxes paid	\$	308,795	\$	430,242
Non-cash exchanges and conversions	\$	4,547,934	\$	670,283

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****JUNE 30, 2016****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(1)</sup>	Par / Shares	Cost	Fair Value (C)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 149.9%<sup>(3), (4)</sup></b>							
<b>First Lien Secured Debt 133.0%</b>							
Walden USA Holdings, LLC	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575	12,064,454	\$ 12,033,272	\$ 12,064,454
Amgen Pharma Inc. <sup>(6), (11)</sup>	04/04/2022	Healthcare and Pharmaceuticals	6.00%	L+500	3,996,984	3,977,771	3,947,000
American Afford	03/31/2022	Aerospace and Defense	7.50%	L+650	4,968,750	4,894,641	4,919,000
Walden Gaming I, LLC	12/21/2020	Hotel, Gaming and Leisure	9.25%	L+825	6,551,677	6,474,075	6,134,000
Boeing Technologies Corp.	04/22/2022	Aerospace and Defense	7.50%	L+650	10,000,000	9,804,869	9,825,000
Core Midstream Energy LLC	11/15/2018	Energy: Oil and Gas	7.50%	L+650	5,193,754	5,099,253	3,362,900
The Bird Body Company	06/29/2020	Automotive	6.50%	L+550	3,561,170	3,522,363	3,543,300
Walmart AMF Corp.	09/17/2021	Retail	7.25%	L+625	12,804,648	12,730,812	12,708,600
Wm. Wrigley Chewing Tobacco Co., Inc. - Brand A	06/03/2021	Consumer Goods: Non-Durable	7.00%	L+575	2,455,000	2,409,952	2,412,900
Wm. Wrigley Chewing Tobacco Co., Inc. - Brand B	06/03/2021	Consumer Goods: Non-Durable	13.50%	L+1,225	2,470,000	2,423,647	2,427,600
Walmart Control, Inc.	06/30/2021	Transportation: Cargo	5.75%	L+475	2,475,000	2,453,327	2,351,200
Amgen Centrix, Inc.	07/08/2021	Healthcare and Pharmaceuticals	6.00%	L+500	4,962,500	4,854,715	4,801,200
Walden AC Borrower, LLC <sup>(8)</sup>	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700	4,975,000	4,940,772	4,639,100
Walmart Farming Charlie, LLC	12/24/2019	Retail	9.00%	L+800	4,098,750	4,058,445	3,750,300
Walden Chicken Soup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.25%	L+600	4,900,000	4,869,553	4,851,000
Boeing Fin Industries, LLC	11/25/2020	Aerospace and Defense	10.75%	L+975	6,288,400	6,174,059	6,288,400

Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

Fin Industries C (Revolver)	11/25/2020	Aerospace and Defense			518,033		
GT Inc.	12/21/2020	High Tech Industries	7.50%	L+650	11,484,177	11,393,129	11,426,73
o Health vices dings, Inc.	02/07/2022	Healthcare and Pharmaceuticals	6.50%	L+550	1,975,000	1,958,323	1,959,33
S Business vices, Inc.	03/19/2018	Business Services	8.75%	L+725	2,244,847	2,231,061	2,244,84
SA Global utions, Inc.	12/09/2020	Business Services	5.50%	L+450	4,937,500	4,899,570	4,888,12
uglas Products Packaging mpany LLC	06/30/2020	Chemicals, Plastics and Rubber	5.75%	L+475	4,750,000	4,719,966	4,750,00
ven formance nds, Inc. <sup>(8)</sup>	09/10/2020	Consumer Goods: Durable	5.75%	L+475	8,662,500	8,624,006	8,619,18
ven formance nds, Inc. olver) <sup>(8), (10)</sup>	09/10/2020	Consumer Goods: Durable			1,000,000		
K Prime quisition, LLC	04/01/2022	Wholesale	5.75%	L+475	7,406,250	7,334,110	7,369,2
ication works of merica, Inc.	05/06/2021	Telecommunications	8.00%	L+700	8,695,652	8,652,201	8,608,90
ication works of merica, Inc. olver) <sup>(10)</sup>	05/06/2021	Telecommunications			1,304,348		
erging rkets mmunications, C	07/01/2021	Telecommunications	6.75%	L+575	4,950,000	4,885,225	4,714,8
C Health tems, Inc.	12/23/2021	Healthcare and Pharmaceuticals	5.00%	L+400	4,937,500	4,894,712	4,731,73
lobalLogic dings, Inc.	05/31/2019	High Tech Industries	6.25%	L+525	3,900,000	3,875,088	3,851,23
enway Health, C	11/04/2020	High Tech Industries	6.00%	L+500	6,825,000	6,779,912	6,495,14
CR Valor panies, Inc.	06/16/2023	Media: Broadcasting and Subscription	7.00%	L+600	7,500,000	7,201,189	7,120,33
rbortouch ments, LLC	05/31/2022	Banking, Finance, Insurance and Real Estate	7.00%	L+600	7,000,000	6,930,240	6,947,50
lander Sleep ducts, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800	1,165,886	1,152,464	1,142,50
stway poration	12/13/2019	High Tech Industries	6.00%	L+475	2,661,589	2,645,735	2,511,55
nter Defense hнологies, Inc.	08/05/2019	Aerospace and Defense	<sup>(7)</sup>		6,562,500	6,517,360	5,906,23

## Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

EC-Nexergy,	04/30/2020	Consumer Goods: Durable	6.50%	L+550	4,882,266	4,844,245	4,686,97
Gene U.S. Acquisition Corp. (11)	11/04/2020	Construction and Building	7.25%	L+625	6,243,320	6,147,084	6,243,32
ara, Inc.	04/09/2021	High Tech Industries	6.50%	L+550	7,962,497	7,281,491	7,325,49
ergizer	05/01/2019	Business Services	7.25%	L+600	9,030,651	8,959,834	7,676,02
ited and ara, Inc. (6), (11)							
ngine! Print Solutions, LLC	03/30/2022	Media: Advertising, Printing and Publishing	7.00%	L+600	3,990,000	3,931,798	3,970,02
stant Web, C, Term Loan	03/28/2019	Media: Advertising, Printing and Publishing	5.50%	L+450	5,299,436	5,251,863	5,299,43
stant Web, C, Term Loan	03/28/2019	Media: Advertising, Printing and Publishing	12.00%	L+1,100	4,500,000	4,456,145	4,500,00
rior Specialists, Inc.	06/30/2020	Construction and Building	9.00%	L+800	6,697,039	6,640,572	6,697,03
ckson Hewitt	07/30/2020	Consumer Services	8.00%	L+700	4,900,000	4,816,446	4,789,73
Pure Solutions Cal, L.P. (8)	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	4,002,471	3,930,773	3,904,39
ndra Scott, C	07/17/2020	Retail	7.00%	L+600	2,887,500	2,863,085	2,858,62
C Holdings,	10/31/2022	Wholesale	7.00%	L+600	12,437,500	12,236,297	12,250,92
C Holdings, (Revolver) (8),	10/30/2020	Wholesale			1,209,677		
go Resort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	10.50%	L+950	10,200,000	10,002,634	9,996,00
ayon Solutions,	11/13/2020	High Tech Industries	5.50%	L+450	1,950,018	1,944,426	1,927,20
eCare Holdings LLC (8)	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525	5,423,580	5,382,268	5,423,58
dbladditions, Inc. (11)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	2,192,143	2,182,478	2,181,18
dbladditions, Inc. (11)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	282,857	281,610	281,44
mbart Brothers,	04/13/2022	Capital Equipment	7.50%	L+650	6,000,000	5,913,085	5,919,62
mbart Brothers, (Revolver) (8)	04/13/2022	Capital Equipment	7.50%	L+650	353,982	353,982	353,98
mbart Brothers, (Revolver) (8),	04/13/2022	Capital Equipment			884,956		
	08/19/2021	Healthcare and Pharmaceuticals	6.25%	L+525	5,000,000	4,950,238	4,950,00

ing s Drugs orporated							
F9 Atlantis dings, LLC	01/15/2021	Retail	10.00%	L+900	9,664,731	9,533,035	9,664,731
F9 Cypress dings LLC	10/10/2022	Construction and Building	7.25%	L+625	12,437,500	11,862,592	12,002,187
I Holdings,	04/18/2022	Chemicals, Plastics and Rubber	5.25%	L+425	5,445,000	4,969,376	5,304,376
arketplace ents LLC <sup>(12)</sup>	01/27/2021	Media: Diversified and Production	6.25%	P+275 <sup>(9)</sup>	17,287,548	12,089,390	13,263,187
arketplace ents LLC (volver) <sup>(8)</sup>	01/27/2021	Media: Diversified and Production	6.25%	P+275 <sup>(9)</sup>	817,518	817,518	817,518
arketplace ents LLC (volver) <sup>(8), (10)</sup>	01/27/2021	Media: Diversified and Production			885,645		

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

<b>Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(1)</sup></b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Value</b>
ent HoldCorp,	07/31/2019	Healthcare and Pharmaceuticals	6.50%	L+525	8,842,647	\$ 8,794,073	\$ 8,842,647
r, Inc.	06/23/2021	Construction and Building	5.75%	L+475	3,960,000	3,925,700	3,960,000
pt Finance	06/28/2019	Consumer Goods: Non-Durable	6.00%	L+475	15,070,270	14,936,779	14,936,779
acquisition	10/20/2022	Healthcare and Pharmaceuticals	6.50%	L+550	4,000,000	3,941,387	3,941,387
ental Inc.	11/01/2018	Consumer Services	7.50%	L+650	7,528,230	7,466,070	7,528,230
products LLC	05/20/2021	Environmental Industries	6.00%	L+500	7,328,893	7,265,937	7,328,893
products LLC ) (8), (10)	05/20/2020	Environmental Industries			2,459,016		
Now Group,	03/18/2021	High Tech Industries	5.50%	L+450	6,912,500	6,883,037	6,912,500
w US Holding	06/18/2019	Consumer Goods: Durable	9.00%	L+750	3,534,117	3,513,166	3,534,117
C	08/07/2020	Business Services	6.75%	L+575	4,275,000	4,219,181	4,275,000
SA, Inc.	04/05/2023	Utilities: Water	6.50%	L+550	10,000,000	9,708,380	9,708,380
Paradigms nal Group,	05/21/2021	High Tech Industries	6.50%	L+550	10,000,000	9,901,548	9,901,548
fense Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	5,668,843	5,590,789	5,668,843
roup Holdings	10/19/2021	Consumer Goods: Non-Durable	7.25%	L+625	7,406,250	7,289,236	7,406,250
ampling nal, LLC	12/16/2020	Business Services	6.00%	L+500	7,465,468	7,411,362	7,465,468
Maintenance Holding, Inc.	10/18/2019	High Tech Industries	5.00%	L+400	5,850,000	5,832,973	5,850,000
orporation	07/09/2021	Construction and Building	5.75%	L+475	4,822,723	4,785,366	4,822,723
nal Cakerie, )	07/20/2021	Consumer Goods: Non-Durable	6.50%	L+550	3,916,894	3,877,725	3,916,894
nal Cakerie )	07/20/2021	Consumer Goods: Non-Durable	6.00%	L+500	6,016,349	5,956,186	6,016,349



Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

nal Cakerie olver) <sup>(6), (8)</sup> ,	07/20/2021	Consumer Goods: Non-Durable			1,566,757		
oes, LLC	11/02/2020	Consumer Goods: Non-Durable	6.50%	L+550	1,975,000	1,822,673	1
ufacturing,	12/28/2020	Capital Equipment	11.25%	L+1,075	10,925,059	10,722,760	10
lobal Services,	01/14/2019	Telecommunications	9.74%	L+850	310,900	310,900	
			(PIK 1.00%)				
lobal Services,	01/14/2019	Telecommunications	8.50%	L+750	599,702	558,841	
lobal Services, )	01/14/2019	Telecommunications			151,090		
Fiber LLC	10/04/2021	Chemicals, Plastics and Rubber	6.50%	L+550	4,975,000	4,929,933	4
esthesia nc.	12/31/2019	Healthcare and Pharmaceuticals	6.00%	L+500	9,950,000	9,862,444	9
Acquisition,	08/13/2021	Healthcare and Pharmaceuticals	10.00%	L+900	3,097,656	3,097,656	3
Worldwide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.50%	L+550	4,906,250	4,862,563	4
ands, LLC	08/30/2018	Consumer Goods: Non-Durable	8.50%	L+725	2,393,762	2,373,845	1
laims LLC	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800	7,335,002	7,274,446	7
<b>st Lien Debt</b>						494,173,038	489
<b>lien Secured 1%</b>							
Group, Inc. <sup>(8)</sup>	10/31/2018	Consumer Goods: Durable	8.50%	L+700	1,000,000	936,322	
Gilsonite <sup>(5), (8)</sup>	09/01/2017	Metals and Mining	11.50%		1,000,000	1,000,000	
Products and y Company	12/31/2020	Chemicals, Plastics and Rubber	11.14%	L+1,050 <sup>(9)</sup>	2,000,000	1,969,563	2
erger Co.	09/30/2020	Wholesale	11.00%	L+1,000	11,000,000	10,488,120	10
netics nc. <sup>(8)</sup>	07/31/2019	Consumer Goods: Durable	11.00%	L+1,000	4,000,000	3,947,855	4
Line, LLC	07/07/2022	Consumer Services	10.75%	L+975	10,750,000	10,601,962	10
a, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	11.50%	L+1,050	3,775,000	3,701,118	3
Acquisition,	07/07/2021	Business Services	11.75%	L+1,050	11,000,000	10,907,147	10
edia, Inc. <sup>(8)</sup>	10/02/2020	Media: Diversified and Production	9.00%	L+775	4,872,042	4,824,256	4
Oilsands Ltd. <sup>(11)</sup>	08/01/2016	Energy: Oil and Gas	10.00%		2,812,500	2,804,106	1
Acquisition	01/30/2023	Business Services	10.75%	L+975	2,625,000	2,536,650	2



<b>Common Warrants</b>	5,132,091	5
------------------------	-----------	---

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Interest</b>	<b>Basis Point</b>	<b>Par</b>	<b>Cost</b>	<b>Fair Value <sup>(2)</sup></b>
		<b>Coupon</b>	<b>Index <sup>(1)</sup></b>	<b>Spread</b>	<b>/</b>		
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						\$ 557,185,402	\$ 550,999,281
<b>Cash and Cash Equivalents 4.5%</b>							
BlackRock Liquidity Funds, Temp Cash and Temp Fund, Institutional Shares						16,222,651	16,222,651
BNY Mellon Cash Reserve and Cash						544,620	567,751
<b>Total Cash and Cash Equivalents</b>						16,767,271	16,790,402
<b>Total Investments and Cash Equivalents 154.4%</b>						\$ 573,952,673	\$ 567,789,683
<b>Liabilities in Excess of Other Assets (54.4)%</b>							(200,151,050)
<b>Net Assets 100.0%</b>							\$ 367,638,633

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or L, or Prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.

(2) Valued based on our accounting policy (see Note 2).

(3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be non-controlled when we own 25% or less of the portfolio company's voting securities and controlled when we own more than 25% of the portfolio company's voting securities.

(4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a

- portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
  - (6) Non-U.S. company or principal place of business outside the United States.
  - (7) Non-income producing securities.
  - (8) The securities, or a portion thereof, are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
  - (9) Coupon is not subject to a LIBOR or Prime rate floor.
  - (10) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
  - (11) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.
  - (12) Par amount is denominated in Canadian Dollars.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2015**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index <sup>(1)</sup>	Par / Shares	Cost	Fair Value
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>			<b>104.2%</b>	<b>%<sup>(3), (4)</sup></b>			
<b>Lien Secured Debt 89.1%</b>							
Diversified Holdings, Inc.	04/02/2018	Retail	11.97%	L+1,175 <sup>(9)</sup>	10,734,388	\$ 10,555,953	\$ 10,895,000
Diversified Holdings, Inc. (olver) <sup>(10)</sup>	04/02/2018	Retail			1,165,725		17,000
USA Holdings, LLC	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575	7,136,577	7,101,328	7,118,000
Gen Pharma Inc. <sup>(6), (11)</sup>	04/04/2022	Healthcare and Pharmaceuticals	6.00%	L+500	3,900,038	3,881,182	3,880,000
le Solutions,	07/16/2018	High Tech Industries	6.25%	L+500	2,990,287	2,971,513	2,975,000
Gaming I,	12/21/2020	Hotel, Gaming and Leisure	9.25%	L+825	6,602,074	6,517,717	6,492,000
Automotive p, Inc.	10/12/2020	Automotive	6.00%	L+500	3,970,000	3,935,708	3,930,000
Midstream Energy LLC	11/15/2018	Energy: Oil and Gas	7.50%	L+650	5,310,750	5,189,661	4,514,000
Bird Body Company	06/29/2020	Automotive	6.50%	L+550	4,280,585	4,227,278	4,264,000
mor AMF	09/17/2021	Retail	7.25%	L+625	12,902,393	12,820,758	12,805,000
n Cargo rol, Inc.	06/30/2021	Transportation: Cargo	5.75%	L+475	2,493,750	2,469,351	2,468,000
Centrix, Inc.	07/08/2021	Healthcare and Pharmaceuticals	6.00%	L+500	5,000,000	4,878,103	4,870,000
C Borrower, <sup>(8)</sup>	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700	5,000,000	4,961,991	4,700,000
ming Charlie	12/24/2019	Retail	9.00%	L+800	4,432,500	4,381,480	4,210,000
ken Soup for Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.25%	L+600	4,925,000	4,887,389	4,925,000
T Inc.	12/21/2020	High Tech Industries	7.50%	L+650	11,861,946	11,755,521	11,743,000
Health ces	02/07/2022	Healthcare and Pharmaceuticals	6.50%	L+550	1,990,000	1,971,403	1,988,000

Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

ings, Inc.							
Business Services, Inc.	03/19/2018	Business Services	7.25%	L+575	2,976,683	2,952,648	3,017,000
A Global Services, Inc.	12/09/2020	Business Services	5.50%	L+450	4,975,000	4,931,287	4,875,000
ions, Inc.							
Las Products Packaging Company LLC	06/30/2020	Chemicals, Plastics and Rubber	5.75%	L+475	4,937,500	4,901,367	4,937,000
en Performance Products, Inc. (8)	09/10/2020	Consumer Goods: Durable	5.75%	L+475	9,000,000	8,955,000	8,955,000
en Performance Products Inc. (olver) (8), (10)	09/10/2020	Consumer Goods: Durable			1,000,000		
ing Assets Communications,	07/01/2021	Telecommunications	6.75%	L+575	4,987,500	4,914,374	4,862,000
Health Products, Inc.	12/23/2021	Healthcare and Pharmaceuticals	5.00%	L+400	4,975,000	4,927,105	4,897,000
alLogic Services, Inc.	05/31/2019	High Tech Industries	6.25%	L+525	3,930,000	3,900,641	3,910,000
ite Broadcasting Corporation	05/23/2018	Media: Broadcasting and Subscription	6.75%	L+550	1,091,582	1,090,547	1,088,000
hwy Health, Inc.	11/04/2020	High Tech Industries	6.00%	L+500	6,877,500	6,827,661	6,739,000
/Systems Services, Inc.	06/28/2019	High Tech Industries	5.50%	L+450	4,900,000	4,866,257	4,851,000
nder Sleep Products, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800	1,194,000	1,178,322	1,194,000
hwy Corporation	12/13/2019	High Tech Industries	6.00%	L+475	2,753,737	2,734,900	2,726,000
er Defense Technologies, Inc.	08/05/2019	Aerospace and Defense	6.50%	L+550	6,650,000	6,598,073	6,641,000
Nexergy, Inc.	04/30/2020	Consumer Goods: Durable	6.50%	L+550	4,987,500	4,941,329	4,937,000
ene U.S. Acquisition Corp. (1)	11/04/2020	Construction and Building	7.25%	L+625	6,965,000	6,842,099	6,965,000
gizer Services and Products, Inc. (6), (11)	05/01/2019	Business Services	7.25%	L+600	10,094,315	10,001,190	9,084,000
nt Web, Term Loan	03/28/2019	Media: Advertising, Printing and Publishing	5.50%	L+450	5,366,227	5,306,494	5,366,000
nt Web, Term Loan	03/28/2019	Media: Advertising, Printing and Publishing	12.00%	L+1,100	4,500,000	4,447,058	4,500,000
	06/30/2020	Construction and Building	9.00%	L+800	6,800,000	6,734,452	6,800,000

Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

or ialists, Inc. on Hewitt Service Inc.	07/30/2020	Consumer Services	8.00%	L+700	5,000,000	4,901,996	4,900,
ure Solutions al, L.P. <sup>(8)</sup>	08/19/2019	Chemicals, Plastics and Rubber	11.00%	L+1,000	5,965,222	5,874,403	5,537,
ra Scott,	07/17/2020	Retail	7.00%	L+600	3,000,000	2,970,849	2,977,
on Solutions,	11/13/2020	High Tech Industries	5.50%	L+450	1,965,012	1,958,874	1,943,
Care ings LLC <sup>(8)</sup>	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525	5,789,068	5,735,375	5,736,
olad ditions, Inc.	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	2,208,750	2,197,809	2,197,
olad time prises, Ltd. )	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	285,000	283,588	283,
Holdings,	04/18/2022	Chemicals, Plastics and Rubber	5.25%	L+425	1,995,000	1,985,364	1,973,
Trident Corp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	6.50%	L+525	8,917,647	8,854,192	8,566,
otherapy oration <sup>(8)</sup>	06/04/2021	Healthcare and Pharmaceuticals	5.75%	L+475	3,500,000	3,482,889	3,491,
Power, Inc.	06/23/2021	Construction and Building	5.75%	L+475	3,990,000	3,951,094	3,970,
concept ce B.V.	06/28/2019	Consumer Goods: Non-Durable	6.00%	L+475	11,482,697	11,430,576	11,425,
ier Dental ces, Inc.	11/01/2018	Consumer Services	6.00%	L+500	8,219,601	8,131,135	7,109,
le Products	05/20/2021	Environmental Industries	6.00%	L+500	7,470,287	7,398,025	7,470,
le Products (Revolver) )	05/20/2020	Environmental Industries			2,459,016		
ity Home ds Holdings	12/17/2018	Consumer Goods: Durable	7.75%	L+650	4,912,500	4,880,217	4,914,
arch Now p, Inc.	03/18/2021	High Tech Industries	5.50%	L+450	6,965,000	6,931,604	6,912,
rtshaw US ing Corp.	06/18/2019	Consumer Goods: Durable	9.00%	L+750	3,582,758	3,557,217	3,575,
, LLC	08/07/2020	Business Services	6.75%	L+575	4,443,750	4,378,244	4,382,
a Defense ions, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	6,101,682	5,946,657	5,491,
George s ersity lastic ces LLC <sup>(6)</sup> ,	08/09/2021	Consumer Services	5.75%	L+475	714,200	711,056	714,
	08/22/2018	Healthcare and Pharmaceuticals	7.25%	L+575	10,037,432	10,017,760	9,937,



Company Name	Issue Date	Industry	Interest Rate	Spread	Face Value	Carrying Value	Balance
Key Sampling International, Inc.	12/16/2020	Business Services	6.00%	L+500	6,218,750	6,171,308	6,164,000
Perms Maintenance Services Holding, Inc.	10/18/2019	High Tech Industries	5.00%	L+400	5,895,000	5,875,736	5,895,000
Par Corporation	07/09/2021	Construction and Building	5.75%	L+475	4,950,000	4,906,969	4,588,000
US Shoes, Inc.	11/02/2020	Consumer Goods: Non-Durable	6.50%	L+550	1,990,000	1,814,920	1,845,000
Week Global Services, Inc. <sup>(8)</sup>	01/14/2019	Telecommunications	9.50%	L+850	430,126	430,126	430,000
			(PIK 1.00%)				
Week Global Services, Inc. <sup>(8)</sup>	01/14/2019	Telecommunications	8.50%	L+750	599,702	548,736	569,000
Week Global Services, Inc. <sup>(8)</sup>	01/14/2019	Telecommunications			151,090		

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2015**

<b>Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(1)</sup></b>	<b>Par / Shares</b>	<b>Cost</b>	<b>Fair Va</b>
Arathane, LLC	02/07/2022	Automotive	6.75%	L+575	3,800,641	\$ 3,729,952	\$ 3,800,641
Acquisition,	08/13/2021	Healthcare and Pharmaceuticals	10.00%	L+900	3,121,094	3,121,094	3,121,094
Worldwide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.50%	L+550	5,000,000	4,950,477	4,975,000
Brands, LLC	08/30/2018	Consumer Goods: Non-Durable	8.50%	L+725	2,703,000	2,674,736	2,630,000
Claims s, LLC	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800	6,490,688	6,429,955	6,490,688
<b>First Lien and Debt</b>						335,790,073	332,180,000
<b>Lien Secured 2.8%</b>							
Group, Inc. <sup>(8)</sup>	10/31/2018	Consumer Goods: Durable	8.50%	L+700	1,000,000	919,155	890,000
an Gilsonite ny <sup>(5), (8)</sup>	09/01/2017	Metals and Mining	11.50%		1,000,000	1,000,000	950,000
s Products and ng Company	12/31/2020	Chemicals, Plastics and Rubber	11.00%	L+1,050	2,000,000	1,965,770	2,000,000
l Berger Co.	09/30/2020	Wholesale	11.00%	L+1,000	11,000,000	10,423,463	10,670,000
smetics gs, Inc. <sup>(8)</sup>	07/31/2019	Consumer Goods: Durable	11.00%	L+1,000	4,000,000	3,938,373	4,040,000
ge Line, LLC	07/07/2022	Consumer Services	10.75%	L+975	10,750,000	10,589,814	10,720,000
k Acquisition,	07/07/2021	Business Services	11.75%	L+1,050	11,000,000	10,902,202	10,780,000
Media, Inc. <sup>(8)</sup>	10/02/2020	Media: Diversified and Production	9.00%	L+775	5,252,824	5,194,116	5,230,000
ne Oilsands Ltd. , (11)	08/01/2017	Energy: Oil and Gas	10.00%		2,812,500	2,697,607	2,610,000
<b>Second Lien and Debt</b>						47,630,500	47,900,000

<b>Subordinated Corporate Notes</b>						
<b>Preferred Equity 0.3%</b>						
Cosmetics US, Inc.		Consumer Goods: Durable	8.00%	400	399,704	45
Global Services,		Telecommunications	13.50%	1,047,317	670,283	69
<b>Preferred Equity</b>					1,069,987	1,14
<b>Common Warrants 0.5%</b>						
Wireless Holdings,		Retail		463	118,817	67
Group	12/12/2023	Consumer Goods: Durable		554,715	1,186,649	29
gs, Inc., Series A (Units)						
Group	12/12/2023	Consumer Goods: Durable		1,135,743		2
gs, Inc., Series B (Units)						
y Holdings, LLC		Construction and Building		939	45,761	5
rior Specialists,						
smetics US, Inc.		Consumer Goods: Durable		30	296	21
National, Inc.	11/27/2023	Banking, Finance, Insurance and Real Estate		14,484	28,002	19
Global Services,		Telecommunications		149,617		
m Parent gs, Inc.		Media: Advertising, Printing and Publishing		15,179	56,895	25
<b>Common Warrants</b>					1,436,420	1,70

<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						394,561,175	388,531,175
<b>Investments in Controlled, Affiliated Portfolio Companies 0.7%</b>							
<b>Unsecured</b>							
<b>0.7%</b>							
Television	12/30/2016	Media: Broadcasting and	4.33%	L+400 <sup>(9)</sup>	3,702,009	2,777,132	2,777,132
Investment Holdings, (12)		Subscription					
<b>Investments 104.9%</b>						397,338,307	391,311,175
<b>Equivalents 5.8%</b>							
Bank Liquidity Funds, Temp Cash and Temp Fund, Institutional						21,428,514	21,428,514
<b>Investments and</b>						\$ 418,766,821	\$ 412,740,000
<b>Investments 110.7%</b>							
<b>Liabilities in Excess of</b>							(39,840,000)
<b>Assets (10.7)%</b>							
<b>Assets 100.0%</b>							\$ 372,890,000

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents**

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**SEPTEMBER 30, 2015**

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or L, or Prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (2) Valued based on our accounting policy (see Note 2).
- (3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be non-controlled when we own 25% or less of the portfolio company's voting securities and controlled when we own more than 25% of the portfolio company's voting securities.
- (4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-U.S. company or principal place of business outside the United States.
- (7) Non-income producing securities.
- (8) The securities are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
- (9) Coupon is not subject to a LIBOR or Prime rate floor.
- (10) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (11) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.
- (12) Became a controlled affiliate during the quarter ended September 30, 2015.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents**

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(Unaudited)**

**1. ORGANIZATION**

PennantPark Floating Rate Capital Ltd. was organized as a Maryland corporation in October 2010. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act.

Our investment objectives are to generate current income and capital appreciation. We seek to achieve our investment objective by investing primarily in loans bearing a variable-rate of interest, or Floating Rate Loans, and other investments made to U.S. middle-market private companies whose debt is rated below investment grade. Floating Rate Loans pay interest at variable rates, which are determined periodically, on the basis of a floating base lending rate such as LIBOR, with or without a floor, plus a fixed spread. Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets, which means our net assets plus any borrowings for investment purposes, will be invested in Floating Rate Loans and other investments bearing a variable rate of interest, which may include, from time to time, variable rate derivative instruments. We generally expect that senior secured debt, or first lien loans, will represent at least 65% of our overall portfolio. We generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second lien, high yield, mezzanine and distressed debt securities and, to a lesser extent, equity investments.

We entered into an investment management agreement, or the Investment Management Agreement, with the Investment Adviser, an external adviser that manages our day-to-day operations. We also entered into an administration agreement, or the Administration Agreement, with the Administrator, which provides the administrative services necessary for us to operate.

Funding I, our wholly owned subsidiary and a special purpose entity, was organized in Delaware as a limited liability company in May 2011. We formed Funding I in order to establish our Credit Facility. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that any management fee owed with respect to such services is to be paid to us so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. The Credit Facility allows Funding I to borrow up to \$350 million at LIBOR plus 200 basis points during the revolving period. The Credit Facility is secured by all of the assets held by Funding I. See Note 10.

On August 18, 2015, we completed the acquisition of MCG Capital Corporation, or MCG, pursuant to the Agreement and Plan of Merger, or the Merger Agreement, dated as of April 28, 2015, by and among MCG, our Investment Adviser and the Company. As a result of the transactions contemplated by the Merger Agreement, MCG was ultimately merged with and into PFLT Funding II, LLC with PFLT Funding II, LLC as the surviving company.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The preparation of our consolidated financial statements, or Consolidated Financial Statements, in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions

that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the Financial Accounting Standards Board's Accounting Standards Codification, as amended, or ASC, serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

Our Consolidated Financial Statements are prepared in accordance with GAAP, consistent with ASC 946, Financial Services – Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders Equity.

Our significant accounting policies consistently applied are as follows:

***(a) Investment Valuations***

We expect that there may not be readily available market values for many of our investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this Report. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material. See Note 5.

Our portfolio generally consists of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's

preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;



**Table of Contents**

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2016**

**(Unaudited)**

- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

***(b) Security Transactions, Revenue Recognition, and Realized/Unrealized Gains or Losses***

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair value of our portfolio investments and Credit Facility during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount, or OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or if there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan

is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

***(c) Income Taxes***

We have complied with the requirements of Subchapter M of the Code and expect to be subject to taxation as a RIC. As a result, we account for income taxes using the asset and liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon our qualification and election to be subject to taxation as a RIC, we typically do not incur any material level of federal income taxes. Although we are not subject to federal income taxes as a RIC, we may elect to retain a portion of our calendar year income, which may result in an excise tax. For both the three and nine months ended June 30, 2016, we did not accrue for excise taxes. For the three and nine months ended June 30, 2015, we accrued estimated excise taxes of \$0.1 million and \$0.3 million, respectively.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. We did not have any uncertain tax positions or any unrecognized tax benefits that met the recognition or measurement criteria of ASC 740-10-25 as of the periods presented herein.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gains recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

***(d) Distributions and Capital Transactions***

Distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid, if any, as a distribution is ratified by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually. The tax attributes for distributions will generally include ordinary income and capital gains, but may also include qualified dividends and/or a return of capital.

Capital transactions, in connection with our dividend reinvestment plan or through offerings of our common stock, are recorded when issued and offering costs are charged as a reduction of capital upon issuance of our common stock.

***(e) Foreign Currency Translation***

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, other assets and debt from the fluctuations arising from changes in fair values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

**Table of Contents**

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2016**

**(Unaudited)**

Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. Government securities. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices to be more volatile than those of comparable U.S. companies or U.S. Government securities.

***(f) Consolidation***

As permitted under Regulation S-X and as explained by ASC 946-810-45, PennantPark Floating Rate Capital Ltd. will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we have consolidated the results of our subsidiaries in our Consolidated Financial Statements.

***(g) Asset Transfers and Servicing***

Asset transfers that do not meet ASC 860, Transfers and Servicing, requirements for sale accounting treatment are reflected in the Consolidated Statement of Assets and Liabilities as investments. The creditors of Funding I have received a security interest in all of its assets and such assets are not intended to be available to the creditors of PennantPark Floating Rate Capital Ltd. or any of its affiliates.

**3. AGREEMENTS**

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2016. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that the management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. For providing these services, the Investment Adviser receives a fee from us consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.00% of our average adjusted gross assets, which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for

any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the three and nine months ended June 30, 2016, the Investment Adviser earned base management fees of \$1.3 million and \$3.6 million, respectively, from us. For the three and nine months ended June 30, 2015, the Investment Adviser earned base management fees of \$0.9 million and \$2.6 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 50% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.9167% in any calendar quarter (11.67% annualized) (we refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.9167%) as the catch-up, which is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.9167% in any calendar quarter), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.9167% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the three and nine months ended June 30, 2016, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$0.5 million and \$1.3 million, respectively, from us. For the three and nine months ended June 30, 2015, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$0.5 million and \$2.3 million, respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For each of the three and nine month periods ended June 30, 2016, the Investment Adviser did not earn an incentive fee on capital gains, as calculated under the Investment Management Agreement. For the three and nine months ended June 30, 2015, the Investment Adviser earned an incentive fee on capital gains of approximately zero and \$(0.4) million, respectively, as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the

capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For each of the three and nine month periods ended June 30, 2016, the Investment Adviser did not accrue an incentive fee on our unrealized and realized capital gains as calculated under GAAP.

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

For the three and nine months ended June 30, 2015, the Investment Adviser accrued an incentive fee on our unrealized and realized capital gains as calculated under GAAP of \$0.1 million and \$(0.2) million, respectively.

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of the directors who are not interested persons of us, in February 2016. Under the Administration Agreement, the Administrator provides administration services and office facilities to us. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on our behalf, managerial assistance to portfolio companies to which we are required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the three and nine months ended June 30, 2016, the Investment Adviser was reimbursed approximately \$0.1 million and \$0.6 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above. For the three and nine months ended June 30, 2015, the Investment Adviser was reimbursed approximately \$0.1 million and \$0.5 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

**4. INVESTMENTS**

Purchases of investments, including PIK interest, for the three and nine months ended June 30, 2016 totaled \$101.2 million and \$257.7 million, respectively. For the same periods in the prior year, purchases of investments, including PIK interest, totaled \$75.6 million and \$161.3 million, respectively. Sales and repayments of investments for the three and nine months ended June 30, 2016 totaled \$40.3 million and \$97.1 million, respectively. For the same periods in the prior year, sales and repayments of investments totaled \$53.2 million and \$146.2 million, respectively.

Investments and cash and cash equivalents consisted of the following:

Investment Classification	June 30, 2016		September 30, 2015	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 494,173,038	\$ 489,065,748	\$ 338,567,205	\$ 334,957,341
Second lien	53,717,099	51,681,639	47,630,500	47,902,800
Subordinated debt / corporate notes	3,197,440	2,927,580	8,634,195	5,602,244
	6,097,825	7,324,314	2,506,407	2,849,505

Preferred equity / common  
equity / warrants

Total investments	557,185,402	550,999,281	397,338,307	391,311,890
Cash and cash equivalents	16,767,271	16,790,402	21,428,514	21,428,514
Total investments, cash and cash equivalents	\$ 573,952,673	\$ 567,789,683	\$ 418,766,821	\$ 412,740,404

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash equivalents) in such industries as of:

Industry Classification	June 30, 2016	September 30, 2015
High Tech Industries	10%	13%
Healthcare and Pharmaceuticals	9	12
Consumer Goods: Non-Durable	8	4
Business Services	7	10
Aerospace and Defense	6	3
Construction and Building	6	6
Hotel, Gaming and Leisure	6	5
Consumer Goods: Durable	5	8
Retail	5	8
Wholesale	5	3
Chemicals, Plastics and Rubber	4	4
Consumer Services	4	6
Media: Advertising, Printing and Publishing	4	4
Banking, Finance, Insurance & Real Estate	3	2
Capital Equipment	3	
Media: Diversified and Production	3	2
Telecommunications	3	2
Media: Broadcasting and Subscription	2	1
Utilities: Water	2	
Automotive	1	3
All Other	4	4
Total	100%	100%





**Table of Contents**

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2016**

**(Unaudited)**

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value, as defined under ASC 820, Fair Value Measurement, or ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting date.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information, disorderly transactions or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence was available. Corroborating evidence that would result in classifying these non-binding broker/dealer bids as a Level 2 asset includes observable orderly market-based transactions for the same or similar assets or other relevant observable market-based inputs that

may be used in pricing an asset.

Our investments are generally structured as Floating Rate Loans, mainly senior secured debt, but also may include second lien, high yield, mezzanine and distressed debt securities and equity investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments valued using unobservable inputs are included in Level 3 of the fair value hierarchy.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the nine months ended June 30, 2016, our ability to observe valuation inputs resulted in one reclassification of an asset from Level 2 to 1. During the nine months ended June 30, 2015, there was one reclassification from Level 2 to 3 and one reclassification from Level 3 to 2.

In addition to using the above inputs in cash equivalents, investments and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value. See Note 2.

As outlined in the table below, some of our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids typically include a disclaimer, may not have corroborating evidence, may be the result of a disorderly transaction and may be the result of consensus pricing. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

The remainder of our portfolio and our long-term Credit Facility are valued using a market comparable or an enterprise market value technique. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the pricing indicated by the external event, excluding transaction costs, is used to corroborate the valuation. When using earnings multiples to value a portfolio company, the multiple used requires the use of judgment and estimates in determining how a market participant would price such an asset. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy. Generally, the sensitivity of unobservable inputs or combination of inputs such as industry comparable companies, market outlook, consistency, discount rates and reliability of earnings and prospects for growth, or lack thereof, affects the multiple used in pricing an investment. As a result, any change in any one of those factors may have a significant impact on the valuation of an investment.

**Table of Contents****PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

Our Level 3 valuation techniques, unobservable inputs and ranges were categorized as follows for ASC 820 purposes:

<b>Asset Category</b>	<b>Fair Value at June 30, 2016</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>	
Debt investments	\$ 282,188,125	Market Comparable	Broker/Dealer bids or quotes	N/A	
Debt investments	261,486,842	Market Comparable	Market Yield	5.3%	16.9% (9.2%)
Equity investments	7,227,242	Enterprise Market Value	EBITDA multiple	6.5x	10.5x (7.6x)

Total Level 3  
investments \$ 550,902,209

Long-Term Credit Facility	\$ 190,374,979	Market Comparable	Market Yield	3.3%
---------------------------	----------------	-------------------	--------------	------

<b>Asset Category</b>	<b>Fair Value at September 30, 2015</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>	
Debt investments	\$ 259,566,475	Market Comparable	Broker/Dealer bids or quotes	N/A	
Debt investments	128,895,910	Market Comparable	Market Yield	5.5%	34.7% (10.6%)
Equity investments	313,941	Market Comparable	Broker/Dealer bids or quotes	N/A	
Equity investments	2,344,955	Enterprise Market Value	EBITDA multiple	6.0x	10.5x (7.6x)

Total Level 3  
investments \$ 391,121,281

Long-Term Credit Facility	\$ 29,600,000	Market Comparable	Market Yield	2.9%
---------------------------	---------------	-------------------	--------------	------

Our investments, cash and cash equivalents and Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes:

<b>Description</b>	<b>Fair Value</b>	<b>Fair Value Measurements at June 30, 2016</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>

Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

Debt investments (First lien)	\$	489,065,748	\$	\$	\$	489,065,748
Debt investments (Second lien)		51,681,639				51,681,639
Debt investments (Subordinated debt / corporate notes)		2,927,580				2,927,580
Equity investments		7,324,314		97,072		7,227,242
<b>Total investments</b>		<b>550,999,281</b>		<b>97,072</b>		<b>550,902,209</b>
Cash and cash equivalents		16,790,402		16,790,402		
<b>Total investments and cash and cash equivalents</b>	\$	<b>567,789,683</b>	\$	<b>16,887,474</b>	\$	<b>550,902,209</b>
Long-Term Credit Facility	\$	190,374,979	\$	\$	\$	190,374,979

**Fair Value Measurements at September 30, 2015**

<b>Description</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Debt investments (First lien)	\$ 334,957,341	\$	\$	\$ 334,957,341
Debt investments (Second lien)	47,902,800			47,902,800
Debt investments (Subordinated debt / corporate notes)	5,602,244			5,602,244
Equity investments	2,849,505		190,609	2,658,896
<b>Total investments</b>	<b>391,311,890</b>		<b>190,609</b>	<b>391,121,281</b>
Cash equivalents	21,428,514	21,428,514		
<b>Total investments and cash equivalents</b>	<b>\$ 412,740,404</b>	<b>\$ 21,428,514</b>	<b>\$ 190,609</b>	<b>\$ 391,121,281</b>
Long-Term Credit Facility	\$ 29,600,000	\$	\$	\$ 29,600,000



**Table of Contents****PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

The tables below show a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3):

<b>Description</b>	<b>Nine Months Ended June 30, 2016</b>		
	<b>First Lien</b>	<b>Second lien, subordinated debt and equity investments</b>	<b>Totals</b>
Beginning Balance	\$ 334,957,341	\$ 56,163,940	\$ 391,121,281
Net realized gains (losses)	373,407	(2,443,779)	(2,070,372)
Net unrealized (depreciation) appreciation	(1,497,426)	1,431,253	(66,173)
Purchases, PIK interest, net discount accretion and non-cash exchanges	250,398,992	8,610,761	259,009,753
Sales, repayments and non-cash exchanges	(95,166,566)	(1,925,714)	(97,092,280)
Transfers in and/or out of Level 3			
Ending Balance	\$ 489,065,748	\$ 61,836,461	\$ 550,902,209
Net change in unrealized depreciation reported within the net change in unrealized depreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$ (1,117,456)	\$ (1,910,884)	\$ (3,028,340)

<b>Description</b>	<b>Nine Months Ended June 30, 2015</b>		
	<b>First Lien</b>	<b>Second lien, subordinated debt and equity investments</b>	<b>Totals</b>
Beginning Balance	\$ 302,565,355	\$ 40,707,230	\$ 343,272,585
Net realized (losses) gains	(97,291)	606,110	508,819

Edgar Filing: PennantPark Floating Rate Capital Ltd. - Form 10-Q

Net unrealized depreciation	(1,317,159)	(1,158,473)	(2,475,632)
Purchases, PIK interest, net discount accretion and non-cash exchanges	142,839,788	16,658,283	159,498,071
Sales, repayments and non-cash exchanges	(139,922,446)	(6,243,136)	(146,165,582)
Transfers in and/or out of Level 3		3,225,324	3,225,324
Ending Balance	\$ 304,068,247	\$ 53,795,338	\$ 357,863,585

Net change in unrealized depreciation reported within the net change in unrealized depreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date.	\$ (1,682,404)	\$ (1,093,227)	\$ (2,775,631)
---	----------------	----------------	----------------



Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)**

The table below shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3):

	<b>Carrying/Fair Value</b>	
	<b>Nine Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Long-Term Credit Facility</b>		
Beginning Balance (cost \$29,600,000 and \$146,400,000, respectively)	\$ 29,600,000	\$ 146,949,000
Net change in unrealized depreciation included in earnings	(532,521)	(233,750)
Borrowings	196,807,500	103,400,000
Repayments	(35,500,000)	(110,100,000)
Transfers in and/or out of Level 3		
Ending Balance (cost \$190,907,500 and \$139,700,000, respectively)	\$ 190,374,979	\$ 140,015,250

As of June 30, 2016, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translating on outstanding borrowings is listed below:

<b>Foreign Currency</b>	<b>Local Currency</b>	<b>Original Borrowing Cost</b>	<b>Current Value</b>	<b>Reset Date</b>	<b>Change in Fair Value</b>
Canadian Dollars	C\$ 17,500,000	\$ 12,407,501	\$ 13,545,420	July 1, 2016	\$ 1,137,919

We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we had expenses of zero and \$0.9 million, respectively, relating to amendment fees on the Credit Facility during the three and nine months ended June 30, 2016. For each of the three and nine months ended June 30, 2015, we incurred \$0.2 million relating to amendment fees on the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities. For the three and nine months ended June 30, 2016, our Credit Facility had a net change in

unrealized depreciation of \$0.3 million and \$0.5 million, respectively. For the three and nine months ended June 30, 2015, our Credit Facility had a net change in unrealized depreciation of zero and \$0.2 million, respectively. As of June 30, 2016 and September 30, 2015, the net unrealized depreciation on our Credit Facility totaled \$0.5 million and zero, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments.

## 6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A portfolio company is generally presumed to be a non-controlled affiliate when we own at least 5% but 25% or less of its voting securities and a controlled affiliate when we own more than 25% of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the nine months ended June 30, 2016 were as follows:

Name of Investment	Purchases of / Fair Value Advances / Sale of /			Income Accrued June 30, 2016	Fair Value at June 30, 2016	Net Realized (Losses)
	at September 30, 2015	to Affiliate	Distributions from Affiliates			
<b>Controlled Affiliates</b>						
GMC Television Broadcasting Holdings, LLC	\$ 2,776,507	\$	\$ (2,777,132)	\$ 105,502	\$	\$
<b>Total Controlled Affiliates</b>	<b>\$ 2,776,507</b>	<b>\$</b>	<b>\$ (2,777,132)</b>	<b>\$ 105,502</b>	<b>\$</b>	<b>\$</b>

## 7. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

The following information sets forth the computation of basic and diluted per share net increase in net assets resulting from operations:

	Three Months Ended June 30,		Nine Months Ended	
	2016	2015	2016	2015
net increase in net assets resulting from operations	\$ 13,419,342	\$ 4,726,777	\$ 17,602,397	\$
or basic and diluted weighted average shares	26,730,074	14,898,056	26,730,074	
ed net increase in net assets per share resulting from operations	\$ 0.50	\$ 0.32	\$ 0.66	\$

## 8. CASH AND CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S.

Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of June 30, 2016 and September 30, 2015, cash and cash equivalents consisted of money market funds in the amounts of \$16.8 million and \$21.4 million at fair value, respectively.

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2016****(Unaudited)****9. FINANCIAL HIGHLIGHTS**

Below are the financial highlights:

	<b>Nine Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 13.95	\$ 14.40
Net investment income <sup>(1)</sup>	0.72	0.94
Net realized and unrealized loss <sup>(1)</sup>	(0.06)	(0.18)
Net increase in net assets resulting from operations <sup>(1)</sup>	0.66	0.76
Distributions to stockholders <sup>(1), (2)</sup>	(0.86)	(0.83)
Net asset value, end of period	\$ 13.75	\$ 14.33
Per share market value, end of period	\$ 12.40	\$ 13.88
Total return* <sup>(3)</sup>	11.68%	6.84%
Shares outstanding at end of period	26,730,074	14,898,056
<b>Ratios** / Supplemental Data:</b>		
Ratio of operating expenses to average net assets <sup>(4)</sup>	2.72%	3.72%
Ratio of Credit Facility related expenses to average net assets <sup>(5)</sup>	1.46%	1.61%
Ratio of total expenses to average net assets <sup>(5)</sup>	4.18%	5.33%
Ratio of net investment income to average net assets <sup>(5)</sup>	7.05%	8.81%
Net assets at end of period	\$ 367,638,633	\$ 213,451,790
Weighted average debt outstanding	\$ 112,950,484	\$ 131,659,707

Weighted average debt per share <sup>(1)</sup>	\$	4.23	\$	8.84
Asset coverage per unit <sup>(6)</sup>	\$	2,931	\$	2,524
Portfolio turnover ratio		26.66%		57.40%

\* Not annualized for periods less than one year.

\*\* Annualized for periods less than one year.

(1) Based on the weighted average shares outstanding for the respective periods.

(2) The tax status of distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP, and reported on Form 1099-DIV each calendar year.

(3) Based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.

(4) Excludes Credit Facility related costs.

(5) Credit Facility amendment costs, if any, are not annualized.

(6) The asset coverage ratio for a class of senior securities representing indebtedness is calculated on our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by the senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the asset coverage per unit.

## 10. CREDIT FACILITY

Funding I's multi-currency Credit Facility with affiliates of SunTrust Bank, or the Lenders, was \$350 million as of June 30, 2016, subject to satisfaction of certain conditions and regulatory restrictions that the 1940 Act imposes on us as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of August 2020 and a revolving period that ends in August 2018. As of June 30, 2016 and September 30, 2015, Funding I had \$190.9 million and \$29.6 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 2.50% and 2.20%, excluding undrawn commitment fees of 0.50% and 0.75%, as of June 30, 2016 and September 30, 2015, respectively. The annualized weighted average cost of debt for the nine months ended June 30, 2016 and 2015, inclusive of the fee on the undrawn commitment on the Credit Facility but excluding amendment costs, was 3.94% and 2.48%, respectively.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in August 2020. The Credit Facility is secured by all of the assets of Funding I. Both PennantPark Floating Rate Capital Ltd. and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including, but not limited to, restrictions of loan size, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. For instance, we must maintain at least \$25 million in equity and must maintain an interest coverage ratio of at least 125%. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of June 30, 2016, we were in compliance with the covenants relating to our Credit Facility.

We own 100% of the equity interest in Funding I and treat the indebtedness of Funding I as our leverage. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

Our interest in Funding I (other than the management fee) is subordinate in priority of payment to every other obligation of Funding I and is subject to certain payment restrictions set forth in the Credit Facility. We may receive cash distributions on our equity interests in Funding I only after it has made all required payments of (1) cash interest and, if applicable, principal to the Lenders, (2) administrative expenses and (3) claims of other unsecured creditors of Funding I. The Investment Adviser has irrevocably directed that any management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager.

**Table of Contents**

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JUNE 30, 2016**

**(Unaudited)**

**11. COMMITMENTS AND CONTINGENCIES**

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt investments, if any, are disclosed in the Consolidated Schedules of Investments. As of June 30, 2016 and September 30, 2015, we had \$10.3 million and \$4.8 million, respectively, in commitments to fund investments.

**12. SUBSEQUENT EVENTS**

Subsequent to quarter-end, we collected approximately five cents per share in a partial litigation settlement related to a former portfolio company of MCG. Additionally, subsequent to quarter-end we purchased approximately \$64.4 million of new investments.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

PennantPark Floating Rate Capital Ltd. and its Subsidiaries:

We have reviewed the accompanying consolidated statements of assets and liabilities of PennantPark Floating Rate Capital Ltd. and its Subsidiaries (collectively referred to as the Company), including the consolidated schedule of investments, as of June 30, 2016, the consolidated statements of operations for the three and nine months ended June 30, 2016 and 2015, and the consolidated statements of changes in net assets and cash flows for the nine months ended June 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated statement of assets and liabilities of the Company, including the consolidated schedule of investments, as of September 30, 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 12, 2015, we expressed an unqualified opinion on those financial statements.

/s/ RSM US LLP

New York, New York

August 9, 2016



**Table of Contents**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FORWARD-LOOKING STATEMENTS**

This Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiaries regarding future events or our future performance or future financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our Company, our industry, our beliefs and our assumptions. The forward-looking statements contained in this Report involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our prospective portfolio companies;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the impact of a protracted decline in the liquidity of credit markets on our business;

the impact of investments that we expect to make;

the impact of fluctuations in interest rates on our business and our portfolio companies;

our contractual arrangements and relationships with third parties;

the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

the ability of our prospective portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our prospective portfolio companies;

the impact of price and volume fluctuations in the stock markets;

the ability of the Investment Adviser to locate suitable investments for us and to monitor and administer our investments;

the impact of future legislation and regulation on our business and our portfolio companies;

the impact of European sovereign debt and other world economic issues.

We use words such as anticipates, believes, expects, intends, seeks, plans, estimates and similar expressions to identify forward-looking statements. You should not place undue influence on the forward-looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Report should not be regarded as a representation by us that our plans and objectives will be achieved.

We have based the forward-looking statements included in this Report on information available to us on the date of this Report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this Report, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including reports on Form 10-Q/K and current reports on Form 8-K.

You should understand that under Section 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

The following analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes thereto contained elsewhere in this Report.

### ***Overview***

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate current income and capital appreciation by investing primarily in Floating Rate Loans and other investments made to U.S. middle-market companies.

We believe that Floating Rate Loans to U.S. middle-market companies offer attractive risk-reward to investors due to a limited amount of capital available for such companies and the potential for rising interest rates. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. Our investments are typically rated below investment grade. Securities rated below investment grade are often referred to as leveraged loans or high yield securities or junk bonds and are often higher risk compared to debt instruments that are rated above

investment grade and have speculative characteristics. However, when compared to junk bonds and other non-investment grade debt, senior secured Floating Rate Loans typically have more robust capital-preserving qualities, such as historically lower default rates than junk bonds, represent the senior source of capital in a borrower's capital structure and often have certain of the borrower's assets pledged as collateral. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

## **Table of Contents**

Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets will be invested in Floating Rate Loans and other investments bearing a variable-rate of interest. We generally expect that senior secured debt, or first lien loans, will represent at least 65% of our overall portfolio. We also generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second lien, high yield, mezzanine and distressed debt securities and, to a lesser extent, equity investments. We seek to create a diversified portfolio by generally targeting an investment size between \$2 million and \$15 million, on average, although we expect that this investment size will vary proportionately with the size of our capital base.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use our Credit Facility, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

### ***Organization and Structure of PennantPark Floating Rate Capital Ltd.***

PennantPark Floating Rate Capital Ltd., a Maryland corporation organized in October 2010, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our investment activities are managed by the Investment Adviser. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross total assets as well as an incentive fee based on our investment performance. We have also entered into an Administration Agreement with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. Our board of directors, a majority of whom are independent of us, provides overall supervision of our activities, and the Investment Adviser supervises our day-to-day activities.

On August 18, 2015, we completed the acquisition of MCG pursuant to the Merger Agreement. As a result of the transactions contemplated by the Merger Agreement, MCG was merged with and into PFLT Panama, LLC with MCG as the surviving corporation, following which MCG was merged with and into PFLT Funding II, LLC with PFLT Funding II, LLC as the surviving company. In accordance with the terms of the Merger Agreement, each outstanding share of MCG common stock (including shares of restricted stock) was converted into the right to receive (i) 0.32044 shares of our common stock (with MCG stockholders receiving cash in lieu of fractional shares of our common stock), and (ii) \$0.30595 per share in cash. As a result of the transactions contemplated by the Merger Agreement, we issued an aggregate of approximately 11.8 million shares of our common stock to former MCG stockholders, and our Investment Adviser made an aggregate cash payment of approximately \$11.3 million to former MCG stockholders.

### ***Revenues***

We generate revenue in the form of interest income on the debt securities we hold and capital gains and dividends, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of senior secured debt or mezzanine debt, typically have a term of three to ten years and bear interest at a fixed or floating rate. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments or PIK interest. The principal amount of the debt securities and

any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of amendment, commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, OID and market discount or premium are capitalized, and we accrete or amortize such amounts as income or expense, as applicable, using the effective interest method as interest income. We record prepayment penalties on loans and debt securities as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

### *Expenses*

Our primary operating expenses include the payment of a management fee and the payment of an incentive fee to our Investment Adviser, if any, our allocable portion of overhead under our Administration Agreement and other operating costs as detailed below. Our management fee compensates our Investment Adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments. Additionally, we pay interest expense on the outstanding debt and unused commitment fees on undrawn amounts, under our Credit Facility. We bear all other direct or indirect costs and expenses of our operations and transactions, including:

the cost of calculating our net asset value, including the cost of any third-party valuation services;

the cost of effecting sales and repurchases of shares of our common stock and other securities;

fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complementary businesses;

expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal and state registration fees and any stock exchange listing fees;

fees and expenses associated with independent audits and outside legal costs;

federal, state and local taxes;

independent directors' fees and expenses;

brokerage commissions;

fidelity bond, directors and officers, errors and omissions liability insurance and other insurance premiums;

---

**Table of Contents**

direct costs such as printing, mailing, long distance telephone and staff;

costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and

all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

Generally, during periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

**PORTFOLIO AND INVESTMENT ACTIVITY**

As of June 30, 2016, our portfolio totaled \$551.0 million and consisted of \$489.1 million of senior secured debt, \$51.7 million of second lien secured debt and \$10.2 million of subordinated debt, preferred and common equity. Our debt portfolio consisted of 99% variable-rate investments (including 94% with a LIBOR or prime floor) and 1% fixed-rate investments. As of June 30, 2016, we had one company on non-accrual, representing 1.2% and 1.1% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$6.2 million as of June 30, 2016. Our overall portfolio consisted of 92 companies with an average investment size of \$6.0 million, had a weighted average yield on debt investments of 8.0%, and was invested 89% in senior secured debt, 9% in second lien secured debt and 2% in subordinated debt, preferred and common equity.

As of September 30, 2015, our portfolio totaled \$391.3 million and consisted of \$335.0 million of senior secured debt, \$47.9 million of second lien secured debt and \$8.4 million of subordinated debt, preferred and common equity. Our debt portfolio consisted of 97% variable-rate investments (including 92% with a LIBOR or prime floor) and 3% fixed-rate investments. As of September 30, 2015, we had one company on non-accrual, representing 1.6% and 0.9% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$6.0 million as of September 30, 2015. Our overall portfolio consisted of 76 companies with an average investment size of \$5.1 million, had a weighted average yield on debt investments of 7.9%, and was invested 86% in senior secured debt, 12% in second lien secured debt and 2% in subordinated debt, preferred and common equity.

For the three months ended June 30, 2016, we invested \$101.2 million in 14 new and six existing portfolio companies with a weighted average yield on debt investments of 7.4%. Sales and repayments of investments for the three months ended June 30, 2016 totaled \$40.3 million. For the nine months ended June 30, 2016, we invested \$257.7 million in 29 new and 16 existing portfolio companies with a weighted average yield on debt investments of 8.1%. Sales and repayments of investments for the nine months ended June 30, 2016 totaled \$97.1 million.

For the three months ended June 30, 2015, we invested \$75.6 million in 12 new and 12 existing portfolio companies with a weighted average yield on debt investments of 6.9%. Sales and repayments of investments for the three months ended June 30, 2015 totaled \$53.2 million. For the nine months ended June 30, 2015, we invested \$161.0 million in 26 new and 26 existing portfolio companies with a weighted average yield on debt investments of 7.4%. Sales and

repayments of investments for the nine months ended June 30, 2015 totaled \$146.2 million.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the ASC serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

### ***Valuation of Portfolio Investments***

We expect that there may not be readily available market values for many of the investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this Report. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material.

Our investments generally consist of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of an investment. The independent valuation firms review management's preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;



- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and

---

**Table of Contents**

- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting period date.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

In addition to using the above inputs in cash equivalents, investments and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an

irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we had expenses of zero and \$0.9 million, respectively, relating to amendment fees on the Credit Facility during the three and nine months ended June 30, 2016. For each of the three and nine months ended June 30, 2015, we incurred \$0.2 million relating to amendment fees on the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities. For the three and nine months ended June 30, 2016, our Credit Facility had a net change in unrealized depreciation of \$0.3 million and \$0.5 million, respectively. For each of the three and nine month periods ended June 30, 2015, our Credit Facility had a net change in unrealized (appreciation) depreciation of zero and \$0.2 million, respectively. As of June 30, 2016 and September 30, 2015, the net unrealized depreciation on our Credit Facility totaled \$0.5 million and zero, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments.

### ***Revenue Recognition***

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, OID, market discount or premium and deferred financing costs on liabilities which we do not fair value are capitalized and then accreted or amortized using the effective interest method as interest income. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

### ***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation***

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair value of our portfolio investments and Credit Facility during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

### ***Foreign Currency Translation***

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, other assets and debt from the fluctuations arising from changes in fair values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

## **Table of Contents**

### ***Payment-in-Kind Interest or PIK***

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. For us to maintain our status as a RIC, substantially all of this income must be paid out to stockholders in the form of distributions, even though we have not collected any cash with respect to interest on PIK securities.

### ***Federal Income Taxes***

We have elected to be taxed, and intend to qualify annually to maintain our election to be taxed, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements. We also must annually distribute dividends to our stockholders of an amount generally at least equal to 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends to our stockholders in respect of each calendar year of an amount generally at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of the sum of our capital gain net income (i.e., the excess, if any, of capital gains over capital losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we paid no federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may retain such net capital gains or investment company taxable income in the future, subject to maintaining our ability to be subject to tax as a RIC, to provide us with additional liquidity.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gains recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

## **RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three and nine months ended June 30, 2016 and 2015.

### ***Investment Income***

Investment income for the three and nine months ended June 30, 2016 was \$10.8 million and \$30.9 million, respectively, and was attributable to \$9.0 million and \$26.0 million from senior secured loans and the remainder from second lien secured debt and subordinated debt. This compares to investment income for the three and nine months ended June 30, 2015, which was \$7.1 million and \$22.6 million, respectively, and was attributable to \$5.4 million and \$17.4 million from senior secured loans and the remainder from second lien secured debt and subordinated debt. The increase in investment income compared to the same periods over the prior year was primarily due to the growth of our portfolio.

### ***Expenses***

Expenses for the three and nine months ended June 30, 2016 totaled \$4.0 million and \$11.7 million, respectively. Base management fee for the same periods totaled \$1.3 million and \$3.6 million, incentive fee totaled \$0.5 million and \$1.3 million, Credit Facility expenses totaled \$1.3 million and \$4.2 million (including \$0.9 million of amendment expenses) and general and administrative expenses totaled \$0.9 million and \$2.6 million, respectively. This compares to expenses for the three and nine months ended June 30, 2015, which totaled \$3.0 million and \$8.5 million, respectively. Base management fee for the same periods totaled \$0.9 million and \$2.6 million, incentive fee totaled \$0.6 million (including zero on net realized gains and \$0.1 million on net unrealized gains accrued but not payable) and \$1.7 million (including \$(0.4) million on net realized gains and \$(0.2) million on net unrealized gains accrued but not payable), Credit Facility expenses totaled \$1.0 million (including \$0.2 million of Credit Facility amendment expenses) and \$2.6 million (including \$0.2 million of Credit Facility amendment expenses), general and administrative expenses totaled \$0.4 million and \$1.3 million and excise taxes were \$0.1 million and \$0.3 million, respectively. The increase in expenses compared with the same periods in the prior year was primarily due to Credit Facility amendment expenses and base management fee as a result from the growth of our portfolio.

### ***Net Investment Income***

Net investment income totaled \$6.8 million and \$19.2 million, or \$0.26 and \$0.72 per share, for the three and nine months ended June 30, 2016, respectively. Net investment income totaled \$4.1 million and \$14.0 million, or \$0.28 and \$0.94 per share, for the three and nine months ended June 30, 2015, respectively. The decrease in net investment income per share compared to the same periods in the prior year was primarily due to the issuance of new shares in connection with our acquisition of MCG in August 2015.

### ***Net Realized Gains or Losses***

Sales and repayments of investments for the three and nine months ended June 30, 2016 totaled \$40.3 million and \$97.1 million and net realized gains (losses) totaled \$0.2 million and \$(2.0) million, respectively. Sales and repayments of investments totaled \$53.2 million and \$146.2 million and realized gains totaled zero and \$0.4 million for the three and nine months ended June 30, 2015, respectively. The change in realized gains (losses) compared with the same periods in the prior year was primarily due to the changes in market conditions of our investments and the values at which they were realized.

### ***Unrealized Appreciation or Depreciation on Investments and Credit Facility***

For the three and nine months ended June 30, 2016, we reported a net change in unrealized appreciation (depreciation) on investments of \$6.1 million and \$(0.1) million, respectively. For the three and nine months ended June 30, 2015, we reported a net change in unrealized appreciation (depreciation) on investments of \$0.7 million and \$(3.4) million, respectively. As of June 30, 2016 and September 30, 2015, our net unrealized depreciation on investments totaled \$6.2 million and \$6.0 million, respectively. The net change in unrealized appreciation (depreciation) on our investments was driven primarily by changes in the capital market conditions, financial performance of certain portfolio companies, and the reversal of unrealized depreciation (appreciation) of investments sold.

For the three and nine months ended June 30, 2016, our Credit Facility had a net change in unrealized depreciation of \$0.3 million and \$0.5 million, respectively. For the three and nine months ended June 30, 2015, our Credit Facility had a net change in unrealized depreciation of zero and \$0.2 million, respectively. As of June 30, 2016 and September 30, 2015, net unrealized depreciation on our Credit Facility totaled \$0.5 million and zero, respectively. The change in net unrealized depreciation compared to the same periods in the prior year was primarily due to changes in the capital markets.

## **Table of Contents**

### ***Net Change in Net Assets Resulting from Operations***

Net change in net assets resulting from operations totaled \$13.4 million and \$17.6 million, or \$0.50 and \$0.66 per share, respectively, for the three and nine months ended June 30, 2016. This compares to a net change in net assets resulting from operations which totaled \$4.7 million and \$11.3 million, or \$0.32 and \$0.76 per share, respectively, for the three and nine months ended June 30, 2015. We intend to continue to find attractive investment opportunities to grow net assets from operations.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources are derived from public offerings, our Credit Facility, cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our Credit Facility, the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Funding I's multi-currency Credit Facility with the Lenders was \$350 million as of June 30, 2016, subject to satisfaction of certain conditions and regulatory restrictions that the 1940 Act imposes on us as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of August 2020 and a revolving period that ends in August 2018. As of June 30, 2016 and September 30, 2015, Funding I had \$190.9 million and \$29.6 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 2.50% and 2.20%, excluding undrawn commitment fees of 0.50% and 0.75%, as of June 30, 2016 and September 30, 2015, respectively. The annualized weighted average cost of debt for the nine months ended June 30, 2016 and 2015, inclusive of the fee on the undrawn commitment on the Credit Facility but excluding amendment costs, was 3.94% and 2.48%, respectively. As of June 30, 2016 and September 30, 2015, we had \$159.6 million and \$260.4 million of unused borrowing capacity under our Credit Facility, respectively, subject to regulatory restrictions.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in August 2020. The Credit Facility is secured by all of the assets of Funding I. Both PennantPark Floating Rate Capital Ltd. and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including but not limited to, restrictions of loan size, currency types and amounts, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. For instance, we must maintain at least \$25 million in equity and must maintain an interest coverage ratio of at least 125%. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of June 30, 2016, we were in compliance with the covenants relating to our Credit Facility.

We own 100% of the equity interest in Funding I and treat the indebtedness of Funding I as our leverage. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

Our interest in Funding I (other than the management fee) is subordinate in priority of payment to every other obligation of Funding I and is subject to certain payment restrictions set forth in the Credit Facility. We may receive

cash distributions on our equity interests in Funding I only after it has made (1) all required cash interest and, if applicable, principal payments to the Lenders, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. We cannot assure you that there will be sufficient funds available to make any distributions to us or that such distributions will meet our expectations from Funding I. The Investment Adviser has irrevocably directed that the management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager.

We may raise equity or debt capital through both registered offerings and private offerings of securities, securitizing a portion of our investments among other considerations or mergers and acquisitions. Furthermore, our Credit Facility availability depends on various covenants and restrictions as discussed in the preceding paragraphs. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate purposes.

On June 30, 2016 and September 30, 2015, we had cash and cash equivalents at fair value of \$16.8 million and \$21.4 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of \$143.2 million for the nine months ended June 30, 2016, and our financing activities provided cash of \$138.5 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from net borrowings under the Credit Facility.

Our operating activities provided cash of \$16.4 million for the nine months ended June 30, 2015, and our financing activities used cash of \$19.0 million for the same period. Our operating activities provided cash primarily from sales and repayments on our investments and our financing activities used cash primarily from net repayments under the Credit Facility.

### ***Contractual Obligations***

A summary of our significant contractual payment obligations at cost as of June 30, 2016, including borrowings under our Credit Facility and other contractual obligations, is as follows:

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$ 190.9	\$	\$	\$ 190.9	\$
Unfunded investments <sup>(1)</sup>	10.3		0.1	7.4	2.8
<b>Total contractual obligations</b>	<b>\$ 201.2</b>	<b>\$</b>	<b>\$ 0.1</b>	<b>\$ 198.3</b>	<b>\$ 2.8</b>

<sup>(1)</sup> Unfunded investments are disclosed in the Consolidated Schedule of Investments.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2016, PennantPark Investment Advisers serves as our Investment Adviser. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance.





## **Table of Contents**

Under our Administration Agreement, which was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2016, the Administrator furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide managerial assistance to our portfolio companies, we or the Administrator will be paid an additional amount based on the services provided. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

If any of our contractual obligations discussed above are terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

## ***Recent Developments***

Subsequent to quarter-end, we collected approximately five cents per share in a partial litigation settlement related to a former portfolio company of MCG. Additionally, subsequent to quarter-end we purchased approximately \$64.4 million of new investments.

## ***Off-Balance Sheet Arrangements***

We currently engage in no off-balance sheet arrangements other than our funding requirements for the unfunded investments described above.

## ***Distributions***

In order to be subject to tax as a RIC and to not be subject to corporate-level tax on undistributed income or gains, we are required, under Subchapter M of the Code, to annually distribute dividends to stockholders of an amount generally at least equal to 90% of the sum of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends to our stockholders in respect of each calendar year of an amount generally at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of our capital gain net income (i.e., the excess, if any, of capital gains over capital losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we paid no federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may retain such net capital gains or investment company taxable income in the future, subject to maintaining our ability to be subject to be taxed as a RIC, to provide us with additional liquidity.

During the three and nine months ended June 30, 2016, we declared distributions of \$0.285 and \$0.855 per share, respectively, for total distributions of \$7.6 million and \$22.9 million, respectively. For the same periods in the prior year, we declared distributions of \$0.285 and \$0.830 per share, respectively, for total distributions of \$4.2 million and \$12.3 million, respectively. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, common stockholders will be notified of the portion of those distributions deemed to be a tax return

of capital. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of each calendar year and in our periodic reports filed with the SEC.

We intend to continue to make monthly distributions to our stockholders. Our monthly distributions, if any, are determined by our board of directors quarterly.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage test for borrowings applicable to us as a BDC under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of RIC status. We cannot assure stockholders that they will receive any distributions at a particular level.

We may distribute our common stock as a dividend from our investment company taxable income or net capital gains, and a stockholder could receive a portion of such dividend distributed by us in shares of our common stock with the remaining amount in cash. A stockholder will be considered to have recognized dividend income equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. We have not elected to distribute stock as a dividend but reserve the right to do so.

**Table of Contents****Item 3. Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of June 30, 2016, our debt portfolio consisted of 99% variable-rate investments (including 94% with a LIBOR or prime floor) and 1% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months, after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.

Assuming that the most recent Consolidated Statements of Assets and Liabilities was to remain constant, and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

Change In Interest Rates	Change In Interest Income, Net Of Interest Expense		Per Share
	(in thousands)		
Up 1%	\$ 537	\$	0.02
Up 2%	\$ 4,136	\$	0.16
Up 3%	\$ 7,736	\$	0.29
Up 4%	\$ 11,335	\$	0.42

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the Consolidated Statements of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations or net investment income. Accordingly, no assurances can be given that actual results would not differ materially from those shown above.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds, as well as our level of leverage. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income or net assets.

We may hedge against interest rate and foreign currency fluctuations by using standard hedging instruments such as futures, options and forward contracts or our Credit Facility subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates and foreign currencies, they may also limit our ability to participate in benefits of lower interest rates or higher exchange rates with respect to our portfolio of investments with fixed interest rates. During the periods covered by this Report, we did not engage in interest rate hedging activities or foreign currency hedging activities.

**Item 4. Controls and Procedures**

As of the period covered by this Report, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Neither we nor our Investment Adviser nor our Administrator is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our Investment Adviser or Administrator. From time to time, we, our Investment Adviser or our Administrator may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Report, you should consider carefully the factors discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing PennantPark Floating Rate Capital Ltd. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

Unless specifically indicated otherwise, the following exhibits are incorporated by reference to exhibits previously filed with the SEC:

- 3.1 Articles of Amendment and Restatement of the Registrant (Incorporated by reference to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-170243), filed on March 29, 2011).
- 3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 814-00891), filed on December 2, 2015).
- 4.1 Form of Share Certificate (Incorporated by reference to the Registrant's Pre-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-170243), filed on April 5, 2011).
- 11 Computation of Per Share Earnings (included in the notes to the Consolidated Financial Statements contained in this Report).
- 31.1 \* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 31.2 \* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 32.1 \* Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
- 32.2 \* Certification of Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
- 99.1 Privacy Policy of the Registrant (Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 814-00891), filed on November 17, 2011).

---

\* Filed herewith.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNANTPARK FLOATING RATE CAPITAL LTD.

Date: August 9, 2016

By: */s/ Arthur H. Penn*  
**Arthur H. Penn**  
**Chief Executive Officer and Chairman of the Board  
of Directors (Principal Executive Officer)**

Date: August 9, 2016

By: */s/ Aviv Efrat*  
**Aviv Efrat**  
**Chief Financial Officer and Treasurer (Principal  
Financial and Accounting Officer)**

35