

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

PennantPark Floating Rate Capital Ltd.
Form 10-Q
May 10, 2018
Consolidation

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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, 15th Floor

New York, N.Y.

(Address of principal executive offices)

10022

(Zip Code)

(212) 905-1000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of May 10, 2018 was 38,772,074.

PENNANTPARK FLOATING RATE CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018

TABLE OF CONTENTS

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Statements of Assets and Liabilities as of March 31, 2018 (unaudited) and September 30, 2017 4

Consolidated Statements of Operations for the three and six months ended March 31, 2018 and 2017 (unaudited) 5

Consolidated Statements of Changes in Net Assets for the six months ended March 31, 2018 and 2017 (unaudited) 6

Consolidated Statements of Cash Flows for the six months ended March 31, 2018 and 2017 (unaudited) 7

Consolidated Schedules of Investments as of March 31, 2018 (unaudited) and September 30, 2017 8

Notes to Consolidated Financial Statements (unaudited) 14

Report of Independent Registered Public Accounting Firm 28

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 29

Item 3. Quantitative and Qualitative Disclosures About Market Risk 40

Item 4. Controls and Procedures 40

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 41

Item 1A. Risk Factors 41

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 42

Item 3. Defaults Upon Senior Securities 42

Item 4. Mine Safety Disclosures 42

Item 5. Other Information 42

Item 6. Exhibits 43

SIGNATURES 44

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, under the Securities Exchange Act of 1934, as amended, or the Exchange Act. 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; “Taxable Subsidiary” refers to PFLT Investment Holdings, LLC; “PSSL” refers to PennantPark Senior Secured Loan Fund I LLC, an unconsolidated joint venture; “PennantPark Investment Advisers” or “Investment Adviser” refers to PennantPark Investment Advisers, LLC; “PennantPark Investment Administration” or “Administrator” refers to PennantPark Investment Administration, LLC; “Credit Facility” refers to our multi-currency, senior secured revolving credit facility, as amended and restated; “2023 Notes” refers to our 3.83% Series A notes due 2023; “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 Credit Facility, and our business include investments we make through our subsidiaries.

Item 1. Consolidated Financial Statements

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	March 31, 2018 (unaudited)	September 30, 2017
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$752,786,913 and \$665,514,821, respectively)	\$756,508,349	\$666,973,639
Controlled, affiliated investments (cost—\$76,000,000 and \$43,000,000, respectively)	77,278,843	43,525,143
Total of investments (cost—\$828,786,913 and \$708,514,821, respectively)	833,787,192	710,498,782
Cash and cash equivalents (cost—\$48,414,852 and \$18,847,673, respectively)	48,407,896	18,910,756
Interest receivable	2,726,987	2,520,506
Receivable for investments sold	1,062,342	14,185,850
Prepaid expenses and other assets	718,042	1,229,505
Total assets	886,702,459	747,345,399
Liabilities		
Distributions payable	3,683,347	3,085,607
Payable for investments purchased	9,826,176	21,730,512
Credit Facility payable (cost—\$190,173,311 and \$253,783,301, respectively) (See Notes 5 and 10)	191,522,414	256,858,457
2023 Notes payable (cost—\$138,579,858 and zero, respectively) (See Notes 5 and 10)	131,872,593	—
Interest payable on debt	2,610,482	693,787
Base management fee payable (See Note 3)	1,929,703	1,784,806
Performance-based incentive fee payable (See Note 3)	2,947,562	5,061,217
Accrued other expenses	350,212	224,739
Total liabilities	344,742,489	289,439,125
Commitments and contingencies (See Note 11)		
Net assets		
Common stock, 38,772,074 and 32,480,074 shares issued and outstanding, respectively		
Par value \$0.001 per share and 100,000,000 shares authorized	38,772	32,480
Paid-in capital in excess of par value	539,462,336	451,448,872
(Distributions in excess of) undistributed net investment income	(10,850,935)	3,163,645
Accumulated net realized gain on investments	2,965,895	4,289,389
Net unrealized appreciation on investments	4,985,740	2,047,044
Net unrealized depreciation (appreciation) on debt	5,358,162	(3,075,156)
Total net assets	\$541,959,970	\$457,906,274

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

Total liabilities and net assets	\$886,702,459	\$747,345,399
Net asset value per share	\$13.98	\$14.10

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Investment income:				
From non-controlled, non-affiliated investments:				
Interest	\$ 14,639,839	\$ 12,917,094	\$ 28,507,259	\$ 24,868,929
Other income	262,878	303,804	696,058	983,237
From controlled, affiliated investments:				
Interest	898,103	—	1,433,863	—
Dividend	700,000	—	700,000	—
Total investment income	16,500,820	13,220,898	31,337,180	25,852,166
Expenses:				
Base management fee (See Note 3)	1,929,703	1,731,417	3,751,766	3,327,144
Performance-based incentive fee (See Note 3)	375,101	453,666	523,111	1,923,035
Interest and expenses on debt (See Note 10)	3,477,374	1,998,347	6,095,682	3,799,072
Administrative services expenses (See Note 3)	500,000	561,250	1,000,000	1,122,500
Other general and administrative expenses	618,750	357,500	1,237,501	715,000
Expenses before amendment costs, debt issuance costs and provision for taxes	6,900,928	5,102,180	12,608,060	10,886,751
Credit Facility amendment costs and debt issuance costs (See Notes 5 and 10)	—	—	10,869,098	—
Provision for taxes	200,000	90,000	400,000	115,000
Total expenses	7,100,928	5,192,180	23,877,158	11,001,751
Net investment income	9,399,892	8,028,718	7,460,022	14,850,415
Realized and unrealized gain (loss) on investments and debt:				
Net realized gain (loss) on investments	1,463,057	1,960,610	(1,323,494)	2,510,011
Net change in unrealized appreciation (depreciation) on:				
Non-controlled, non-affiliated investments	(1,013,160)	(2,744,991)	2,184,996	(198,966)
Controlled, affiliated investments	435,258	—	753,700	—
Debt depreciation (appreciation) (See Notes 5 and 10)	5,304,713	38,808	8,433,318	(1,029,406)
Net change in unrealized appreciation (depreciation) on investments and debt	4,726,811	(2,706,183)	11,372,014	(1,228,372)
Net realized and unrealized gain (loss) from investments and debt	6,189,868	(745,573)	10,048,520	1,281,639
Net increase in net assets resulting from operations	\$ 15,589,760	\$ 7,283,145	\$ 17,508,542	\$ 16,132,054
Net increase in net assets resulting from operations per common share (See Note 7)	\$0.40	\$0.25	\$0.46	\$0.57
Net investment income per common share	\$0.24	\$0.27	\$0.20	\$0.53

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Six Months Ended March 31,	
	2018	2017
Net increase in net assets resulting from operations:		
Net investment income	\$7,460,022	\$14,850,415
Net realized (loss) gain on investments	(1,323,494)	2,510,011
Net change in unrealized appreciation (depreciation) on investments	2,938,696	(198,966)
Net change in unrealized depreciation (appreciation) on debt	8,433,318	(1,029,406)
Net increase in net assets resulting from operations	17,508,542	16,132,054
Distributions to stockholders	(21,474,602)	(16,328,642)
Capital transactions		
Public offering (See Note 1)	89,031,800	80,986,450
Offering costs	(1,012,044)	(470,000)
Net increase in net assets resulting from capital transactions	88,019,756	80,516,450
Net increase in net assets	84,053,696	80,319,862
Net assets:		
Beginning of period	457,906,274	375,906,828
End of period	\$541,959,970	\$456,226,690
(Distribution in excess of) undistributed net investment income, end of period	\$(10,850,935)	\$3,081,419
Capital share activity:		
Shares issued from public offering	6,292,000	5,750,000

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$17,508,542	\$16,132,054
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized (appreciation) depreciation on investments	(2,938,696)	198,966
Net change in unrealized (depreciation) appreciation on debt	(8,433,318)	1,029,406
Net realized loss (gain) on investments	1,323,494	(2,510,011)
Net accretion of discount and amortization of premium	(793,775)	(914,309)
Purchases of investments	(315,338,526)	(271,128,128)
Payment-in-kind interest	(327,152)	(199,470)
Proceeds from dispositions of investments	195,684,288	141,939,924
Increase in interest receivable	(206,481)	(736,514)
Decrease (increase) in receivable for investments sold	13,123,508	(1,421,888)
Decrease in prepaid expenses and other assets	511,463	134,576
(Decrease) increase in payable for investments purchased	(11,904,336)	1,809,030
Increase in interest payable on debt	1,916,695	158,057
Increase in base management fee payable	144,897	272,793
Decrease in performance-based incentive fee payable	(2,113,655)	(1,252,326)
Increase (decrease) in accrued other expenses	125,473	(202,977)
Net cash used in operating activities	(111,717,579)	(116,690,817)
Cash flows from financing activities:		
Public offering	89,031,800	80,986,450
Offering costs	(1,012,044)	(470,000)
Distributions paid to stockholders	(20,876,862)	(15,782,392)
Proceeds from 2023 Notes issuance (See Notes 5 and 10)	138,579,858	—
Borrowings under Credit Facility (See Notes 5 and 10)	61,485,010	196,502,000
Repayments under Credit Facility (See Notes 5 and 10)	(125,095,000)	(129,500,000)
Net cash provided by financing activities	142,112,762	131,736,058
Net increase in cash equivalents	30,395,183	15,045,241
Effect of exchange rate changes on cash	(898,043)	17,839
Cash and cash equivalents, beginning of period	18,910,756	28,910,973
Cash and cash equivalents, end of period	\$48,407,896	\$43,974,053
Supplemental disclosure of cash flow information:		
Interest paid	\$15,048,085	\$3,641,015
Taxes paid	\$377,618	\$—

Non-cash exchanges and conversions	\$53,200,000	\$709,685
------------------------------------	--------------	-----------

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

MARCH 31, 2018

(Unaudited)

				Basis Point			
				Spread			
			Current	Above Par /			
Name	Maturity	Industry	Coupon	Index	Shares	Cost	Fair Value
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—139.6% ⁽⁴⁾							
Open Secured Debt—130.1%							
ed Cable Communications, LLC	08/09/2021	Telecommunications	8.06 %	3M L+575	15,988,750	\$15,817,878	\$15,988,750
Group Intermediate Holdings, Inc.	12/30/2022	Banking, Finance, Insurance and Real Estate	7.16 %	1M L+550	12,545,263	12,470,434	12,545,263
Group Intermediate Holdings, Inc. (Revolver) ⁽⁸⁾ ,	12/30/2021	Banking, Finance, Insurance and Real Estate	—	—	1,771,962	—	—
Group Intermediate Holdings, Inc. ⁽⁸⁾ , ⁽⁹⁾	12/30/2022	Banking, Finance, Insurance and Real Estate	—	—	3,884,016	—	—
America, Inc. ⁽⁸⁾	08/08/2022	Business Services	9.31 %	3M L+700	1,694,346	1,694,346	1,702,000
an Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	6.94 %	3M L+525	5,902,594	5,835,968	5,814,000
an Scaffold	03/31/2022	Aerospace and Defense	8.80 %	3M L+650	4,625,000	4,573,553	4,578,000
an Teleconferencing Services, Ltd.	12/08/2021	Telecommunications	8.29 %	3M L+650	10,396,978	10,252,904	10,350,000
esia Consulting & Management, LP	10/31/2022	Healthcare and Pharmaceuticals	8.24 %	2M L+625	3,586,667	3,557,811	3,505,000
chnologies Corp.	04/22/2022	Aerospace and Defense	8.23 %	3M L+650	4,819,553	4,749,960	4,840,000
Industry Group Opco, LLC	06/14/2021	Consumer Goods: Non-Durable	6.92 %	1M L+450	14,741,911	14,594,677	14,590,000
recision Systems & Space Company, Inc.	04/28/2023	Aerospace and Defense	7.81 %	3M L+550	1,910,000	11,803,218	11,790,000

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

nt Professional IT Services, LLC	05/16/2022	High Tech Industries	9.11	%	3M L+725	15,563,421	15,235,192	15,563,421
nt Professional IT Services, LLC (Revolver) ⁽⁸⁾	05/16/2022	High Tech Industries	—	—	2,311,784	—	—	—
e Aerospace, LLC	11/14/2023	Aerospace and Defense	8.33	%	3M L+650	10,972,500	10,869,193	10,972,500
Cargo Control, Inc.	06/30/2021	Transportation: Cargo	6.63	%	1M L+475	2,431,250	2,416,865	2,334,000
as Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.63	%	1M L+575	3,894,033	3,902,552	3,913,000
TZ Purchaser, Inc.	07/21/2023	Consumer Goods: Durable	8.30	%	3M L+600	12,312,500	12,052,563	12,030,000
n Soup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.92	%	1M L+625	4,564,286	4,554,375	4,244,000
Glassboards LLC	03/16/2023	Construction and Building	7.13	%	1M L+525	3,815,000	3,781,490	3,815,000
y Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	7.30	%	3M L+500	19,365,736	19,322,714	18,580,000
infonet, Inc. ⁽⁸⁾	03/13/2023	High Tech Industries	8.09	%	3M L+600	28,668,067	28,453,915	28,453,915
infonet, Inc. (Revolver) ^{(8), (9)}	03/13/2023	High Tech Industries	—	—	1,000,000	—	—	—
olding, LLC	08/02/2021	Business Services	7.13	%	1M L+525	14,228,082	14,112,152	14,228,082
olding, LLC (Revolver) ^{(8), (9)}	08/02/2021	Business Services	—	—	3,246,944	—	—	—
oldings, Inc.	10/31/2023	Consumer Goods: Non-Durable	8.14	%	3M L+675	27,431,250	26,911,319	27,150,000
oldings, Inc. (Revolver) ^{(8), (9)}	10/31/2022	Consumer Goods: Non-Durable	—	—	2,115,000	—	—	—
Room Holdings, Inc. ⁽⁸⁾	12/29/2023	Media: Advertising, Printing and Publishing	6.88	%	1M L+500	16,458,750	16,297,045	16,330,000
s Products and Packaging Company LLC	03/29/2022	Chemicals, Plastics and Rubber	8.05	%	3M L+575	14,558,824	14,304,409	14,304,409
s Products and Packaging Company LLC	03/29/2022	Chemicals, Plastics and Rubber	—	—	2,941,176	—	—	—
ver) ^{(8), (9)}								
Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.47	%	1M L+475	10,353,130	10,327,979	10,353,130
Performance Brands, Inc. (Revolver) ^{(8), (9)}	09/30/2022	Consumer Goods: Durable	—	—	1,000,000	—	—	—
lley Tourist Development Authority	03/07/2022	Hotel, Gaming and Leisure	10.30	%	3M L+800	16,658,500	16,463,812	16,900,000
on Networks of America, Inc.	05/06/2021	Telecommunications	9.30	%	3M L+700	12,198,851	12,085,984	12,198,851
on Networks of America, Inc. (Revolver) ⁽⁸⁾	05/06/2021	Telecommunications	8.88	%	3M L+700	608,696	608,696	608,696
on Networks of America, Inc. (Revolver) ^{(8), (9)}	05/06/2021	Telecommunications	—	—	1,565,217	—	—	—
nt Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	9.05	%	3M L+675	9,543,702	9,472,029	9,543,702
Software LLC ⁽⁸⁾	11/14/2022	High Tech Industries	9.26	%		14,933,333	14,582,371	14,850,000

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

					1M L+750			
Software LLC (Revolver) ^{(8), (9)}	11/14/2022	High Tech Industries	—	—	2,666,667	—	—	
der Sleep Products, LLC	06/09/2023	Consumer Goods: Non-Durable	10.30%	3M	L+800	10,952,132	10,755,101	10,952,132
zer Limited and Aptara, Inc. ^{(6), (10)}	05/01/2019	Business Services	7.88 %	1M	L+600	6,323,883	6,304,511	6,308,511
FEI B.V. ^{(6), (10), (11)}	10/12/2021	Chemicals, Plastics and Rubber	8.00 %	3M	€6,972,954			
Sales, LLC	12/30/2021	Wholesale	8.69 %	2M	L+700	6,659,995	6,659,995	6,659,995
Sales, LLC ^{(8), (9)}	12/30/2021	Wholesale	—	—	3,234,375	—	—	—
ucture Supply Operations Pty Ltd. ^{(6), (10), (11)}	12/12/2023	Wholesale	6.56 %	1M	L+475	3,500,000	3,648,649	3,717,649
Medical Ophthalmics Inc. ^{(6), (10)}	04/13/2022	Capital Equipment	9.06 %	3M	L+675	3,356,627	3,315,684	3,356,627
Medical Ophthalmics Inc. (Revolver) ^{(6), (8), (9),}	04/13/2022	Capital Equipment	—	—	530,973	—	—	—
ks, Inc.	11/14/2024	Business Services	5.88 %	1M	L+400	14,962,500	14,890,296	14,992,500
s Power, Inc.	04/30/2020	Consumer Goods: Durable	8.39 %	1M	L+650	4,706,737	4,686,834	4,353,737
n Hewitt Inc.	07/30/2020	Consumer Services	8.77 %	3M	L+700	4,653,450	4,605,352	4,618,450
e Solutions NoCal, L.P. ⁽⁸⁾	02/19/2021	Chemicals, Plastics and Rubber	10.65 %	1M	L+900	4,002,471	3,936,606	4,002,471
oldings, Inc.	10/31/2022	Wholesale	8.30 %	3M	L+600	12,124,771	11,973,984	12,124,771
oldings, Inc. (Revolver) ^{(8), (9)}	10/30/2020	Wholesale	—	—	1,209,677	—	—	—
n Intermediate Holdings LLC	07/03/2024	Retail	5.25 %	3M	L+425	1,246,859	1,246,859	1,259,859
esort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	11.80%	3M	L+950	10,149,000	10,001,087	10,049,000
egal Software Pty Ltd ^{(6), (10), (11)}	09/12/2022	High Tech Industries	7.72 %	3M	L+575	7,950,000	7,701,123	7,562,123
re Holdings LLC ⁽⁸⁾	11/30/2018	Healthcare and Pharmaceuticals	7.55 %	3M	L+525	4,954,937	4,941,343	4,360,937
t Brothers, Inc.	04/13/2022	Capital Equipment	9.06 %	3M	L+675	6,213,097	6,145,949	6,213,097
t Brothers, Inc. (Revolver) ⁽⁸⁾	04/13/2022	Capital Equipment	10.25%	P+550	353,982	353,982	353,982	353,982
t Brothers, Inc. (Revolver) ^{(8), (9)}	04/13/2022	Capital Equipment	—	—	884,956	—	—	—
Drugs Incorporated	08/19/2021	Healthcare and Pharmaceuticals	7.06 %	3M	L+525	4,238,073	4,208,419	4,195,073
atlantis Holdings, LLC	05/01/2023	Retail	7.69 %	1M	L+600	14,228,125	14,103,605	14,133,125
Pro Products, LLC ⁽⁸⁾	12/08/2023	Consumer Goods: Non-Durable	7.71 %	1M	L+600	5,486,250	5,407,209	5,433,250
Pro Products, LLC ^{(8), (9)}	12/08/2023	Consumer Goods: Non-Durable	—	—	2,500,000	—	—	(23,800,000)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

MARCH 31, 2018

(Unaudited)

					Basis Point		
					Spread		
					Above Par /		
					Index		
Issuer Name	Maturity	Industry	Coupon		Shares	Cost	Fair Value ⁽²⁾
Marketplace Events LLC	01/27/2021	Media: Diversified and Production	7.55 %		3M L+525	\$3,324,112	\$3,360,341
Marketplace Events LLC ⁽¹¹⁾	01/27/2021	Media: Diversified and Production	6.87 %		P+275	16,984,030	11,939,134
Marketplace Events LLC (Revolver) ^{(8), (9)}	01/27/2021	Media: Diversified and Production	—		—	1,703,163	—
Mission Critical Electronics, Inc. (Revolver) ^{(8), (9)}	09/28/2021	Capital Equipment	—		—	883,392	—
Montreign Operating Company, LLC	01/24/2023	Hotel, Gaming and Leisure	10.13 %		1M L+825	26,690,076	26,360,609
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	8.30 %		3M L+600	25,263,169	25,593,369
New Trident HoldCorp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	8.05 %		3M L+575	8,643,355	7,584,191
Output Services Group, Inc. ⁽⁸⁾	03/28/2024	Business Services	5.25 %		1M L+425	6,599,316	6,649,060
Output Services Group, Inc. ^{(8), (9)}	03/28/2024	Business Services	—		—	1,367,521	—
Ox Two, LLC ⁽⁸⁾	02/27/2023	Construction and Building	12.00 %		P+725	5,000,000	4,902,130
Ox Two, LLC (Revolver) ⁽⁸⁾	02/27/2023	Construction and Building	12.00 %		P+725	111,111	111,111
Ox Two, LLC (Revolver) ^{(8), (9)}	02/27/2023	Construction and Building	—		—	444,444	—

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

Profile Products LLC	01/31/2023	Environmental Industries	7.30	%	3M L+500	10,572,393	10,487,053	10,572,393
Profile Products LLC (Revolver) (8)	01/31/2022	Environmental Industries	8.75	%	P+400	1,147,541	1,147,541	1,147,541
Profile Products LLC (Revolver) (8), (9)	01/31/2022	Environmental Industries	—		—	1,311,475	—	—
Quick Weight Loss Centers, LLC	08/23/2021	Beverage, Food and Tobacco	6.65	%	3M L+475	9,375,000	9,275,218	8,953,125
Research Now Group, Inc. and Survey Sampling International LLC	12/20/2024	Business Services	7.86	%	6M L+550	24,937,500	23,725,307	24,703,836
Salient CRGT Inc.	02/28/2022	High Tech Industries	7.63	%	1M L+575	18,767,857	18,456,320	18,908,616
Snak Club, LLC (Revolver) (8)	07/19/2021	Beverage, Food and Tobacco	7.66	%	1M L+600	483,333	483,333	482,666
Snak Club, LLC (Revolver) (8), (9)	07/19/2021	Beverage, Food and Tobacco	—		—	183,333	—	—
Snak Club, LLC (Revolver) (8), (9)	02/22/2019	Beverage, Food and Tobacco	—		—	133,333	—	—
Softvision, LLC	05/21/2021	High Tech Industries	7.38	%	1M L+550	8,622,271	8,562,055	8,622,271
Sonny's Enterprises, LLC (8)	12/01/2022	Capital Equipment	6.38	%	1M L+475	5,482,264	5,479,814	5,482,264
TeleGuam Holdings, LLC	07/25/2023	Telecommunications	6.88	%	1M L+500	7,960,000	7,850,123	7,960,000
Tensar Corporation	07/09/2021	Construction and Building	7.05	%	3M L+475	4,631,234	4,606,929	4,527,031
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	7.25	%	2M L+525	7,569,912	7,512,072	7,569,912
The Original Cakerie, Co. (6), (10)	07/20/2022	Consumer Goods: Non-Durable	6.85	%	1M L+500	7,741,092	7,671,184	7,741,092
The Original Cakerie Ltd. (6), (10)	07/20/2022	Consumer Goods: Non-Durable	6.38	%	1M L+450	5,514,002	5,470,123	5,514,002
The Original Cakerie Ltd. (Revolver) (6), (8), (10)	07/20/2022	Consumer Goods: Non-Durable	6.24	%	1M L+450	226,957	226,957	226,957
The Original Cakerie Ltd. (Revolver) (6),	07/20/2022	Consumer Goods: Non-Durable	—		—	1,191,527	—	—

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

(8), (9), (10)

Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	13.13	%	1M L+1,125	8,470,850	8,366,409	8,428,495
UBEO, LLC (8)	04/03/2024	Capital Equipment	6.39	%	1M L+450	2,000,000	1,980,000	1,980,000
UBEO, LLC (Revolver) (8), (9)	04/03/2024	Capital Equipment	—			2,200,000	—	—
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	10.81	%	3M L+850	43,025	43,025	43,025
			(PIK 1.00 %)					
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	10.81	%	3M L+850	599,702	585,872	611,696
UniTek Global Services, Inc. (Revolver) (8), (9)	01/14/2019	Telecommunications	—		—	151,090	—	—
US Med Acquisition, Inc. (8)	08/13/2021	Healthcare and Pharmaceuticals	11.31	%	1M L+900	3,042,969	3,042,969	2,890,820
Veterinary Specialists of North America, LLC	07/15/2021	Healthcare and Pharmaceuticals	7.32	%	3M L+550	12,479,753	12,394,545	12,510,847
Veterinary Specialists of North America, LLC (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—		—	5,083,667	—	12,666
Veterinary Specialists of North America, LLC (Revolver) (8)	07/15/2021	Healthcare and Pharmaceuticals	7.21	%	1M L+550	110,000	110,000	110,274
Veterinary Specialists of North America, LLC (Revolver) (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—		—	770,000	—	1,918
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	8.31	%	3M L+600	7,125,000	7,094,074	7,182,926
Whitney, Bradley & Brown, Inc. (Revolver) (8)	10/18/2022	Aerospace and Defense	10.89	%	1M L+900	125,000	125,000	123,750
Whitney, Bradley & Brown, Inc. (Revolver) (8), (9)	10/18/2022	Aerospace and Defense	—		—	208,333	—	(2,083)
	06/30/2022	Capital Equipment	8.45	%		10,217,439	10,163,923	10,217,439

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

Winchester Electronics Corporation					1M L+650				
Xebec Global Holdings, LLC (8)	02/12/2024	Aerospace and Defense	7.32	%	3M L+550	5,750,000	5,694,792	5,692,497	
Total First Lien Secured Debt							701,266,721	705,303,470	
Second Lien Secured Debt—6.7%									
Condor Borrower, LLC (8)	04/25/2025	High Tech Industries	10.51	%	3M L+875	2,000,000	1,961,567	2,000,000	
DecoPac, Inc. (8)	03/31/2025	Beverage, Food and Tobacco	10.56	%	3M L+825	11,341,463	11,125,209	11,341,463	
Howard Berger Co. LLC	09/30/2020	Wholesale	12.31	%	3M L+1,000	11,750,000	11,419,604	11,162,500	
				(PIK 5.05 %)					
MailSouth, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	12.19	%	3M L+1,050	3,775,000	3,720,904	3,775,000	
McAfee, LLC (8)	09/29/2025	High Tech Industries	10.38	%	1M L+850	2,500,000	2,463,380	2,526,250	
PT Network, LLC (8)	04/12/2023	Healthcare and Pharmaceuticals	11.71	%	3M L+1,000	1,666,667	1,636,195	1,650,000	
PT Network, LLC (8), (9)	04/12/2023	Healthcare and Pharmaceuticals	—		—	333,333	—	(3,333)	)
Sunshine Oilsands Ltd. (5), (6), (8), (10)	08/01/2018	Energy: Oil and Gas	—	(7)	—	2,792,500	2,720,508	977,375	
Veritext Corp.	01/30/2023	Business Services	11.30	%	3M L+900	2,690,625	2,628,430	2,690,625	
Total Second Lien Secured Debt							37,675,797	36,119,880	
Subordinated Debt/Corporate Notes—0.1%									
UniTek Global Services, Inc. (8)	07/15/2019	Telecommunications	15.00	%	—	183,773	183,773	187,449	
				(PIK 15.00 %)					
Total Subordinated Debt/Corporate Notes							183,773	187,449	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

MARCH 31, 2018

(Unaudited)

				Basis Point			
				Spread			
				Current	AbovePar /		
Issuer Name	Maturity	Industry	Coupon	Index	(\$ Shares	Cost	Fair Value ⁽²⁾
Preferred Equity—0.4%							
(7), (8)							
Condor Holdings Limited ^{(6), (10)}	—	High Tech Industries	—	—	88,000	\$10,173	\$10,173
Condor Top Holdco Limited ^{(6), (10)}	—	High Tech Industries	—	—	88,000	77,827	77,827
UniTek Global Services, Inc. - Senior Preferred Equity	—	Telecommunications	18.00 %	—	448,851	448,851	519,368
UniTek Global Services, Inc.	—	Telecommunications	13.50 %	—	1,047,317	670,283	1,614,212
Total Preferred Equity						1,207,134	2,221,580
Common Equity/Warrants—2.3%							
(7), (8)							
Affinion Group Holdings, Inc.	—	Consumer Goods: Durable	—	—	99,029	3,514,572	2,058,597
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Goods: Durable	—	—	4,298	1,186,649	5,144
By Light Investco LP ⁽¹²⁾	—	High Tech Industries	—	—	21,908	2,190,771	3,587,653
By Light Investco LP ^{(9), (12)}	—	High Tech Industries	—	—	5,592	—	—
CI (Allied) Investment Holdings, LLC ⁽¹²⁾ (Allied America, Inc.)	—	Business Services	—	—	84,000	840,004	881,389
CI (PTN) Investment Holdings II, LLC	—	Healthcare and Pharmaceuticals	—	—	13,333	200,000	200,000

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

(PT Network, LLC) ⁽¹²⁾							
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	1,633	1,632,744	1,774,053
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Construction and Building	—	—	1,141	58,044	247,390
Gauge InfosoftCoInvest, LLC (The Infosoft Group, LLC)	—	Media: Broadcasting and Subscription	—	—	500	500,000	642,500
GCOM InvestCo LP ⁽¹²⁾	—	High Tech Industries	—	—	1,281,433	1,281,433	1,299,155
GCOM InvestCo LP ^{(9), (12)}	—	High Tech Industries	—	—	718,567	—	—
Patriot National, Inc. ⁽¹³⁾	—	Banking, Finance, Insurance and Real Estate	—	—	11,867	27,995	165
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) ⁽¹²⁾	—	Telecommunications	—	—	878,419	878,419	909,236
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) ^{(9), (12)}	—	Telecommunications	—	—	121,581	—	—
UniTek Global Services, Inc.	—	Telecommunications	—	—	213,739	—	923,545
UniTek Global Services, Inc. (Warrants)	—	Telecommunications	—	—	23,889	—	—
WBB Equity, LLC	—	Aerospace and Defense	—	—	142,857	142,857	147,143
(Whitney, Bradley & Brown, Inc.) ⁽¹²⁾							
Total Common Equity/Warrants						12,453,488	12,675,970
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						752,786,913	756,508,349
Investments in Controlled, Affiliated Portfolio Companies—14.2% ⁽⁴⁾							
First Lien Secured Debt—9.8%							
PennantPark Senior Secured Loan Fund I LLC ^{(8), (10)}	05/06/2014	Financial Services	8.81 %	3M L+650	53,200,000	53,200,000	53,200,000
Equity Interests—4.4%							
PennantPark Senior Secured Loan Fund I LLC ^{(8), (10)}	—	Financial Services	—	—	—	22,800,000	24,078,843
						76,000,000	77,278,843

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

Total Investments in Controlled, Affiliated Portfolio
Companies

Total Investments—153.8%	828,786,913	833,787,192
Cash and Cash Equivalents—9.0%		
BlackRock Federal FD Institutional 30	44,994,710	44,994,710
BNY Mellon Cash	3,420,142	3,413,186
Total Cash and Cash Equivalents	48,414,852	48,407,896
Total Investments and Cash Equivalents—162.8%	\$877,201,765	\$882,195,088
Liabilities in Excess of Other Assets—(62.8)%		(340,235,118)
Net Assets—100.0%		\$541,959,970

- (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,” the Euro Interbank Offered Rate, or EURIBOR or “E,” or Prime rate, or “P.” The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 60-day, 90-day or 180-day LIBOR rate (1M L, 2M L, 3M L, or 6M L, respectively), and EURIBOR loans are typically indexed to a 90-day EURIBOR rate (3M E), at the borrower’s option. 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) 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.
- (10) 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. As of March 31, 2018, qualifying assets represent 86% of our total assets and non-qualifying assets represent 14% of our total assets.
- (11) Par amount is denominated in Australian Dollars (A\$), Canadian Dollars (C\$) or in Euros (€) as denoted.
- (12) Investment is held through our Taxable Subsidiary (See Note 1).

(13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2017

Name	Maturity	Industry	Current Coupon	Basis Point	Spread	Above Par / Index	Shares	Cost	Fair Value
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—145.7% ^{(3), (4)}									
Secured Debt—133.1%									
Cable Communications, LLC	08/09/2021	Telecommunications	7.08	%	L+575	16,225,000	\$16,029,514	\$16,029,514	\$16,029,514
Up Holdings, Inc.	12/30/2022	Banking, Finance, Insurance and Real Estate	6.74	%	L+550	9,177,637	9,098,312	9,098,312	9,098,312
Up Holdings, Inc. (Revolver) ^{(8), (9)}	12/30/2021	Banking, Finance, Insurance and Real Estate	—	—	—	1,771,962	—	—	—
Up Holdings, Inc. ^{(8), (9)}	12/30/2022	Banking, Finance, Insurance and Real Estate	—	—	—	2,983,500	—	—	—
Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	6.48	%	L+525	10,945,000	10,805,812	10,805,812	10,805,812
Gilsonite Company ⁽⁸⁾	12/31/2021	Metals and Mining	15.00 (PIK 5.00%)	%	—	128,248	124,746	124,746	124,746
Scaffold	03/31/2022	Aerospace and Defense	7.83	%	L+650	4,750,000	4,691,657	4,691,657	4,691,657
Teleconferencing Services, Ltd.	12/08/2021	Telecommunications	7.78	%	L+650	10,741,453	10,574,347	10,574,347	10,574,347
a Consulting & Management, LP	10/31/2022	Healthcare and Pharmaceuticals	6.58	%	L+525	3,970,000	3,935,087	3,935,087	3,935,087
a Consulting & Management, LP ^{(8), (9)}	10/31/2022	Healthcare and Pharmaceuticals	—	—	—	1,000,000	—	—	(20,000,000)
Technologies Corp.	04/22/2022	Aerospace and Defense	7.83	%	L+650	4,881,581	4,803,856	4,803,856	4,803,856
sion Systems & Space Company, Inc.	04/28/2023	Aerospace and Defense	6.84	%	L+550	11,970,000	11,854,093	11,854,093	11,854,093
os., Co., Tranche A	06/03/2021	Consumer Goods: Non-Durable	7.08	%	L+575	2,239,494	2,207,741	2,207,741	2,207,741
os., Co., Tranche B	06/03/2021	Consumer Goods: Non-Durable	13.58	%	L+1,225	2,263,329	2,291,698	2,291,698	2,291,698

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

Professional IT Services, LLC	05/16/2022	High Tech Industries	8.57	%	L+725	15,630,360	15,263,130	15,263,130
Professional IT Services, LLC (Revolver) ⁽⁸⁾ ,	05/16/2022	High Tech Industries	—		—	2,311,784	—	—
argo Control, Inc.	06/30/2021	Transportation: Cargo	6.08	%	L+475	2,443,750	2,427,358	2,350,000
alor Companies, Inc. ⁽¹⁰⁾	06/16/2023	Media: Broadcasting and Subscription	5.58	%	L+425	7,000,000	6,982,500	7,000,000
Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.08	%	L+575	3,913,750	3,923,223	3,800,000
Z Purchaser, Inc.	07/21/2023	Consumer Goods: Durable	7.33	%	L+600	12,375,000	12,094,894	12,094,894
Charlie LLC	12/24/2019	Retail	12.33 (PIK 3.00%)	%	L+800	3,961,544	3,935,418	3,935,418
oup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.50	%	L+625	4,589,286	4,573,873	4,573,873
ssboards LLC	03/16/2023	Construction and Building	6.49	%	L+525	4,845,000	4,799,506	4,800,000
ustries LLC	11/25/2020	Aerospace and Defense	10.99	%	L+975	5,024,894	5,941,505	5,941,505
ustries LLC (Revolver) ⁽⁸⁾ , ⁽⁹⁾	11/25/2020	Aerospace and Defense	—		—	518,033	—	—
resh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	6.24	%	L+500	19,874,245	19,826,088	19,826,088
ing, LLC	08/02/2021	Business Services	6.49	%	L+525	9,900,075	9,817,138	9,900,075
oom LLC	11/21/2022	Media: Advertising, Printing and Publishing	7.24	%	L+600	6,737,500	6,618,201	6,618,201
roducts and Packaging Company LLC	06/30/2020	Chemicals, Plastics and Rubber	6.09	%	L+475	4,373,643	4,353,783	4,353,783
rformance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.01	%	L+475	10,621,111	10,592,972	10,592,972
rformance Brands, Inc. (Revolver) ⁽⁸⁾ , ⁽⁹⁾	09/30/2022	Consumer Goods: Durable	—		—	1,000,000	—	—
y Tourist Development Authority	03/07/2022	Hotel, Gaming and Leisure	9.33	%	L+800	16,743,500	16,527,764	16,527,764
Networks of America, Inc.	05/06/2021	Telecommunications	8.33	%	L+700	7,657,615	7,627,450	7,627,450
Networks of America, Inc. (Revolver) ⁽⁸⁾ , ⁽⁹⁾	05/06/2021	Telecommunications	—		—	1,304,348	—	—
Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	8.08	%	L+675	10,265,559	10,180,889	10,180,889
Sleep Products, LLC	06/09/2023	Consumer Goods: Non-Durable	9.30	%	L+800	12,468,750	12,228,162	12,228,162
efense Technologies, Inc. ⁽⁸⁾	08/05/2019	Aerospace and Defense	7.31	%	L+600	5,862,500	5,846,053	5,846,053
.S. Acquisition Corp. ⁽⁶⁾ , ⁽¹⁰⁾	11/04/2020	Construction and Building	7.56	%	L+625	5,918,532	5,850,581	5,850,581
r Limited and Aptara, Inc. ⁽⁶⁾ , ⁽¹⁰⁾	05/01/2019	Business Services	7.25	%	L+600	7,032,993	6,999,227	6,999,227
1 B.V. ⁽⁶⁾ , ⁽¹⁰⁾ , ⁽¹¹⁾	10/12/2021	Chemicals, Plastics and Rubber	8.00	%	E+800	12,127,444	12,605,265	14,000,000
les, LLC	12/30/2021	Wholesale	8.30	%	L+700	6,693,709	6,693,709	6,693,709
les, LLC ⁽⁸⁾ , ⁽⁹⁾	12/30/2021	Wholesale	—		—	3,234,375	—	—

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

Medical Ophthalmics Inc. ^{(6), (10)}	04/13/2022	Capital Equipment	8.08	%	L+675	3,373,623	3,328,240	3,373,623
Medical Ophthalmics Inc. (Revolver) ^{(6), (8), (9),}	04/13/2022	Capital Equipment	—		—	530,973	—	—
eb, LLC, Term Loan A	03/28/2019	Media: Advertising, Printing and Publishing	5.80	%	L+450	7,600,388	7,465,921	7,600,388
eb, LLC, Term Loan B	03/28/2019	Media: Advertising, Printing and Publishing	12.30	%	L+1,100	500,000	4,475,493	4,500,000
pecialists, Inc.	06/30/2020	Construction and Building	9.25	%	L+800	6,525,437	6,486,278	6,525,437
Power, Inc.	04/30/2020	Consumer Goods: Durable	7.74	%	L+650	4,726,503	4,701,985	4,726,503
ewitt Inc.	07/30/2020	Consumer Services	8.31	%	L+700	4,653,450	4,596,122	4,653,450
solutions NoCal, L.P. ⁽⁸⁾	02/19/2021	Chemicals, Plastics and Rubber	10.24	%	L+900	4,002,471	3,936,841	3,936,841
dings, Inc.	10/31/2022	Wholesale	7.33	%	L+600	12,140,282	11,975,690	12,140,282
dings, Inc. (Revolver) ⁽⁸⁾	10/30/2020	Wholesale	6.16	%	L+425	241,935	241,935	241,935
dings, Inc. (Revolver) ^{(8), (9)}	10/30/2020	Wholesale	—		—	967,742	—	—
ort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	10.83	%	L+950	10,200,000	10,036,631	10,200,000
al Software Pty Ltd ^{(6), (10), (11)}	09/12/2022	High Tech Industries	7.54	%	L+575	7,710,000,000	7,728,822	7,710,000,000
Holdings LLC ⁽⁸⁾	11/30/2018	Healthcare and Pharmaceuticals	6.58	%	L+525	4,954,937	4,935,975	4,954,937
Brothers, Inc.	04/13/2022	Capital Equipment	8.08	%	L+675	6,244,708	6,170,275	6,244,708
Brothers, Inc. (Revolver) ⁽⁸⁾	04/13/2022	Capital Equipment	9.75	%	P+550	778,761	778,761	778,761
Brothers, Inc. (Revolver) ^{(8), (9)}	04/13/2022	Capital Equipment	—		—	460,177	—	—
ugs Incorporated	08/19/2021	Healthcare and Pharmaceuticals	6.49	%	L+525	4,238,073	4,204,738	4,238,073
antis Holdings, LLC	05/01/2023	Retail	7.24	%	L+600	14,409,375	14,275,705	14,409,375
ce Events LLC	01/27/2021	Media: Diversified and Production	6.58	%	L+525	3,377,372	3,335,177	3,377,372

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

SEPTEMBER 30, 2017

				Basis Point			
				Spread			
				Current	Above /		
Issuer Name	Maturity	Industry	Coupon	Index	Shares	Cost	Fair Value ⁽²⁾
Marketplace Events LLC ⁽¹¹⁾	01/27/2021	Media: Diversified and Production	6.25	%	P+275	\$17,070,749	\$13,581,250
Marketplace Events LLC (Revolver) ⁽⁸⁾	01/27/2021	Media: Diversified and Production	7.00	%	P+275	459,854	459,854
Marketplace Events LLC (Revolver) ^{(8), (9)}	01/27/2021	Media: Diversified and Production	—	—	1,243,309	—	—
McAfee, LLC ⁽⁸⁾	09/30/2024	High Tech Industries	5.50	%	L+450	7,500,000	7,533,750
Mission Critical Electronics, Inc. (Revolver) ^{(8), (9)}	09/28/2021	Capital Equipment	—	—	883,392	—	(3,592)
Montreign Operating Company, LLC	01/24/2023	Hotel, Gaming and Leisure	9.49	%	L+825	26,294,872	26,513,908
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	7.33	%	L+600	14,625,000	14,405,625
New Trident HoldCorp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	7.08	%	L+575	8,717,647	7,845,882
One Sixty Over Ninety, LLC	03/03/2022	Media: Advertising, Printing and Publishing	10.52	%	L+918	2,750,000	2,750,000
Pathway Partners Vet Management Company LLC ⁽⁸⁾	08/19/2022	Healthcare and Pharmaceuticals	6.24	%	L+500	19,927,985	19,927,985
Profile Products LLC	01/31/2023	Environmental Industries	6.33	%	L+500	10,135,136	10,135,136

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

Profile Products LLC (8), (9)	01/31/2019	Environmental Industries	—	—	573,770	—	—
Profile Products LLC (Revolver) (8), (9)	01/31/2022	Environmental Industries	—	—	2,459,016	—	—
PT Network, LLC	11/30/2021	Healthcare and Pharmaceuticals	7.82	%	L+6508,450,400	8,383,771	8,450,400
PT Network, LLC (8), (9)	11/30/2021	Healthcare and Pharmaceuticals	—	—	2,291,100	—	—
Quick Weight Loss Centers, LLC	08/23/2021	Beverage, Food and Tobacco	6.02	%	L+4759,625,000	9,509,035	9,288,125
Salient CRGT Inc.	02/28/2022	High Tech Industries	6.99	%	L+57519,654,762	19,296,231	19,753,036
Snak Club, LLC (Revolver) (8)	07/19/2021	Beverage, Food and Tobacco	6.24	%	L+500416,667	416,667	416,667
Snak Club, LLC (Revolver) (8), (9)	07/19/2021	Beverage, Food and Tobacco	—	—	83,333	—	—
Softvision, LLC	05/21/2021	High Tech Industries	6.74	%	L+5508,747,271	8,678,587	8,747,271
Sundial Group Holdings LLC	08/15/2024	Consumer Goods: Non-Durable	5.99	%	L+47510,000,000	9,851,797	9,850,000
Survey Sampling International, LLC	12/16/2020	Business Services	6.27	%	L+5005,394,946	5,366,833	5,287,047
TeleGuam Holdings, LLC	07/25/2023	Telecommunications	6.24	%	L+5008,000,000	7,882,265	8,000,000
Tensar Corporation	07/09/2021	Construction and Building	6.08	%	L+4754,631,234	4,603,617	4,295,470
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	6.58	%	L+5258,210,074	8,139,730	8,210,074
The Original Cakerie, Co. (6), (10)	07/20/2021	Consumer Goods: Non-Durable	6.81	%	L+5503,061,372	3,037,176	3,061,372
The Original Cakerie Ltd. (6), (10)	07/20/2021	Consumer Goods: Non-Durable	6.31	%	L+5005,926,142	5,879,466	5,926,142
The Original Cakerie Ltd. (Revolver) (6), (8), (9), (10)	07/20/2021	Consumer Goods: Non-Durable	—	—	1,418,484	—	—
Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	12.49	%	L+1,125,556,365	8,730,717	8,812,084
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	9.84	%	L+85042,809	42,809	42,809
			(PIK 1.00%)				
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	9.84	%	L+850599,702	577,759	611,696
	01/14/2019	Telecommunications	—	—	151,090	—	—

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

UniTek Global
Services, Inc.
(8), (9)

US Med Acquisition, Inc. (8)	08/13/2021	Healthcare and Pharmaceuticals	10.33	%	L+9003,058,594	3,058,594	2,905,664
Veterinary Specialists of North America, LLC	07/15/2021	Healthcare and Pharmaceuticals	6.56	%	L+52511,374,590	11,277,723	11,362,740
Veterinary Specialists of North America, LLC (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—	—	2,660,000	—	(2,771)
Veterinary Specialists of North America, LLC (Revolver) (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—	—	880,000	—	(917)
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	7.34	%	L+6007,312,500	7,278,094	7,358,203
Vistage Worldwide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.74	%	L+5505,029,514	4,994,127	5,042,087
Winchester Electronics Corporation	06/30/2022	Capital Equipment	7.83	%	L+6507,695,662	7,636,513	7,734,140
Winchester Electronics Corporation (8), (9)	06/30/2022	Capital Equipment	—	—	708,333	—	3,542
Total First Lien Secured Debt						607,582,054	609,668,554
Second Lien Secured Debt—8.3%							
DecoPac, Inc. (8)	03/31/2025	Beverage, Food and Tobacco	9.58	%	L+82515,000,000	14,700,169	14,700,000
Douglas Products and Packaging Company LLC	12/31/2020	Chemicals, Plastics and Rubber	11.84	%	L+1,050,000,000	1,976,823	2,020,000
Howard Berger Co. LLC	09/30/2020	Wholesale	11.34	%	L+1,000,450,000	11,064,344	10,992,000
			(PIK 5.18 %)				
MailSouth, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	11.80	%	L+1,050,775,000	3,714,927	3,812,750
McAfee, LLC (8)	09/29/2025	High Tech Industries	9.50	%	L+8502,500,000	2,462,500	2,500,000
	08/01/2018	Energy: Oil and Gas	—	(7) —	2,792,500	2,720,508	1,144,925

Sunshine
Oilsands Ltd.
(5), (6), (8), (10)

Veritext Corp.	01/30/2023	Business Services	10.33	%	L+9002,690,625	2,623,765	2,663,719
Total Second						39,263,036	37,833,394
Lien Secured							
Debt							

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)

SEPTEMBER 30, 2017

				Basis Point				
				Spread				
				Above Par /				
Issuer Name	Maturity	Industry	Coupon	Index	Shares	Cost	Fair Value ⁽²⁾	
Subordinated Debt/Corporate Notes—1.6% ⁽⁶⁾								
American Gilsonite Company ⁽⁵⁾	12/31/2021	Metals and Mining	17.00	%	—	382,989	\$382,989	\$417,458
				(PIK 17.00%)				
Credit Infonet, Inc.	10/26/2020	Tech Industries	13.00	%	—	2,090,982	2,051,232	2,090,982
				(PIK 0.75 %)				
Sonny's Enterprises, LLC	06/01/2023	Capital Equipment	11.00	%	—	4,750,000	4,662,663	4,750,000
UniTek Global Services, Inc.	07/15/2019	Telecommunications	15.00	%	—	170,523	170,523	173,933
				(PIK 15.00%)				
Total Subordinated Debt/Corporate Notes							7,267,407	7,432,373
Preferred Equity—0.5% ^{(7), (8)}								
UniTek Global Services, Inc. - Senior Preferred Equity	—	Telecommunications	18.00	%	—	448,851	448,851	472,846
UniTek Global Services, Inc.	—	Telecommunications	13.50	%	—	1,047,317	670,283	1,509,417
Total Preferred Equity							1,119,134	1,982,263
Common Equity/Warrants—2.2% ^{(7), (8)}								
Affinion Group Holdings, Inc.	—	Consumer Goods: Durable	—		—	99,029	3,514,572	2,263,885
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Goods: Durable	—		—	4,298	1,186,649	6,398
	—	Metals and Mining	—		—	1,000	215,182	339,402

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

American Gilsonite
Company

By Light Investco LP	—	High Tech Industries	—	—	21,908	2,190,771	2,601,944
By Light Investco LP (9)	—	High Tech Industries	—	—	5,592	—	—
Corfin InvestCo, L.P.	—	Aerospace and Defense	—	—	3,000	300,000	429,091
Corfin InvestCo, L.P. (9)	—	Aerospace and Defense	—	—	3,000	—	—
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	1,633	1,632,744	1,632,744
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Construction and Building	—	—	1,141	58,044	204,710
Gauge InfoSoftCoInvest, LLC (The InfoSoft Group, LLC)	—	Media: Broadcasting and Subscription	—	—	500	500,000	631,240
Patriot National, Inc. (13)	—	Banking, Finance, Insurance and Real Estate	—	—	11,867	27,995	16,020
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (12)	—	Telecommunications	—	—	657,233	657,233	657,233
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (9), (12)	—	Telecommunications	—	—	342,767	—	—
UniTek Global Services, Inc.	—	Telecommunications	—	—	213,739	—	1,274,388
UniTek Global Services, Inc. (Warrants)	—	Telecommunications	—	—	23,889	—	—
Total Common Equity/Warrants						10,283,190	10,057,055
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						665,514,821	666,973,639
Investments in Controlled, Affiliated Portfolio Companies—9.5% (4)							
Subordinated Debt/Corporate Notes—6.6%							
PennantPark Senior Secured Loan Fund I LLC (8), (10)	05/06/2024	Financial Services	6.34	%	L+500	30,100,000	30,100,000

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

Equity Interests—2.9%
(7), (8)

PennantPark Senior Secured Loan Fund I LLC ⁽¹⁰⁾	— Financial Services — —	12,900,000	13,425,143
Total Investments in Controlled, Affiliated Portfolio Companies		43,000,000	43,525,143
Total Investments—155.2%		708,514,821	710,498,782
Cash and Cash Equivalents—4.1%			
BlackRock Federal FD Institutional 30		16,818,166	16,818,166
BNY Mellon Cash		2,029,507	2,092,590
Total Cash and Cash Equivalents		18,847,673	18,910,756
Total Investments and Cash		\$727,362,494	\$729,409,538
Equivalents—159.3%			
Liabilities in Excess of Other Assets—(59.3)%			(271,503,264)
Net Assets—100.0%			\$457,906,274

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or “L,” EURIBOR or “E,” 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, 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) 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.
- (10) 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. As of September 30, 2017, qualifying assets represent 87% of our total assets and non-qualifying assets represent 13% of our total assets.
- (11) Par amount is denominated in Australian Dollars (A\$), Canadian Dollars (C\$) or in Euros (€) as denoted.
- (12) Investment is held through our Taxable Subsidiary (See Note 1).

(13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(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 both current income and capital appreciation while seeking to preserve capital. 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 first lien secured debt, 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 secured debt, subordinated debt, 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 the 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 \$405 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.

We have formed and expect to continue to form certain taxable subsidiaries, including the Taxable Subsidiary, which are subject to tax as corporations. The Taxable Subsidiary allows us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while facilitating our ability to qualify as a RIC under the Code.

In May 2017, we and Trinity Universal Insurance Company, or Trinity, a subsidiary of Kemper Corporation (NYSE: KMPR), or Kemper, formed PSSSL, an unconsolidated joint venture. PSSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSSL was formed as a Delaware limited liability company. See Note 4.

In October and November 2017, we completed a follow-on public offering of 6,292,000 shares of common stock at a public offering price of \$14.15 per share resulting in net proceeds of approximately \$88.0 million. The Investment Adviser paid approximately \$2.1 million of the sales load payable to the underwriters. We are not obligated to repay the sales load paid by our Investment Adviser.

In November 2017, we issued \$138.6 million of our 2023 Notes. The principal on the 2023 Notes will be payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% on December 15, 2023. The 2023 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2023 Notes are listed on the Tel Aviv Stock Exchange, or the TASE. In connection with this offering, we have dual listed our common stock on the TASE.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our 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, or FASB, 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 Topic 946, Financial Services – Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and Articles 6, 10 and 12 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.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

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;
- (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 values of our portfolio investments, the Credit Facility and the 2023 Notes 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 collectable. 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 or, in the case of deferred financing costs, as interest expense. 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. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned. Litigation settlements are accounted for in accordance with the gain contingency provisions of ASC Subtopic 450-30, Gain Contingencies, or ASC-450-30.

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 treated as a RIC for federal income tax purposes. In this regard, we account for income taxes using the asset and liability method prescribed by ASC Topic 740, Income Taxes, or ASC 740. 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 treated as a RIC for federal income tax purposes, we typically do not incur any material level of federal income taxes.

However, we may elect to retain a portion of our calendar year income, which may result in the imposition of an excise tax, or we may incur taxes through our Taxable Subsidiaries. For the three and six months ended March 31, 2018, we recorded a provision for taxes of \$0.2 million and \$0.4 million, respectively, pertaining to U.S. federal excise tax. For both the three and six months ended March 31, 2017, we recorded a provision for taxes of \$0.1 million pertaining to U.S. federal excise tax.

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. Tax positions not considered to satisfy the “more-likely-than-not” threshold would be recorded as a tax expense or benefit. Penalties or interest, if applicable, that may be assessed relating to income taxes would be classified as other operating expenses in the financial statements. As of March 31, 2018, there were no tax accruals relating to uncertain tax positions and no amounts accrued for interest or penalties. The Company’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although the Company files both federal and state income tax returns, the Company’s major tax jurisdiction is federal.

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.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

(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 determined 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 certain tax-qualified dividends and/or a return of capital.

Capital transactions, in connection with our dividend reinvestment plan, which was terminated on November 22, 2017, 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.

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 paragraph 946-810-45-3, 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 taxable subsidiaries in our Consolidated Financial Statements. We do not consolidate our non-controlling interest in PSSSL. See further description of our investment in PSSSL in Note 4.

(g) Asset Transfers and Servicing

Asset transfers that do not meet ASC Topic 860, Transfers and Servicing, requirements for sale accounting treatment are reflected in the Consolidated Statements of Assets and Liabilities and Consolidated Schedules of Investments 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.

(h) Recent Accounting Pronouncements

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. An amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017. Public business entities are permitted to apply the new guidance early, but not before the original effective date (i.e., interim periods within annual periods beginning after December 15, 2016). The Company has evaluated this guidance and determined it will have no material impact on its financial statements.

3. AGREEMENTS AND RELATED PARTY TRANSACTIONS

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 2018. 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 six months ended March 31, 2018, the Investment Adviser earned a base management fee of \$1.9 million and \$3.8 million, respectively, from us. For the three and six months ended March 31, 2017, the Investment Adviser earned a base management fee of \$1.7 million and \$3.3 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

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

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 both the three and six months ended March 31, 2018, the Investment Adviser earned \$0.2 million in incentive fees on net investment income from us. For the three and six months ended March 31, 2017, the Investment Adviser earned \$0.6 million and \$1.4 million, respectively, in incentive fees on net investment income 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 the three and six months ended March 31, 2018, the Investment Adviser accrued an incentive fee on capital gains of zero and reversed a prior accrual of \$(0.1) million, respectively, as calculated under the Investment Management Agreement (as described above). For the three and six months ended March 31, 2017, the Investment Adviser did not earn an incentive fee on capital gains, 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 to 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. The incentive fee accrued for under GAAP on our unrealized and realized capital gains for the three and six months ended March 31, 2018 was \$0.2 million and \$0.4 million, respectively. The incentive fee accrued for under GAAP on our unrealized and realized capital gains for the three and six months ended March 31, 2017 was \$(0.1) million and \$0.5 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 2018. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for its 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, significant 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 six months ended March 31, 2018, we reimbursed the Investment Adviser approximately \$0.6 million and \$0.9 million, respectively, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above. For the three and six months ended March 31, 2017, we reimbursed the Investment Adviser approximately \$0.7 million and \$1.0 million, respectively, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

During the three and six months ended March 31, 2018, there were no transactions with any affiliated fund managed by our Investment Adviser. During the three and six months ended March 31, 2017, the Company purchased \$38.1 million and \$38.1 million, respectively, from and sold zero and \$5.0 million in total investments, respectively, to an affiliated fund managed by our Investment Adviser in accordance with, and pursuant to procedures adopted under, Rule 17a-7 under the 1940 Act. Realized gains on those sales amounted to less than \$0.1 million.

For the three and six months ended March 31, 2018, we sold \$6.2 million and \$33.4 million, respectively, in investments to PSSL at fair value and recognized less than \$0.1 million of net realized gains for both periods. There were no such transactions for the three and six months ended March 31, 2017.

4. INVESTMENTS

Purchases of investments, including PIK interest, for the three and six months ended March 31, 2018 totaled \$138.6 million and \$315.7 million, respectively. For the same periods in the prior year, purchases of investments, including PIK interest, totaled \$146.5 million and \$271.3 million, respectively. Sales and repayments of investments for the three and six months ended March 31, 2018 totaled \$46.6 million and \$195.7 million, respectively. For the same periods in the prior year, sales and repayments of investments totaled \$71.5 million and \$141.9 million, respectively.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

Investments and cash and cash equivalents consisted of the following:

Investment Classification	March 31, 2018		September 30, 2017	
	Cost	Fair Value	Cost	Fair Value
First lien	\$701,266,721	\$705,303,470	\$607,582,054	\$609,668,554
First lien in PSSSL ⁽¹⁾	53,200,000	53,200,000	—	—
Second lien	37,675,797	36,119,880	39,263,036	37,833,394
Subordinated debt / corporate notes	183,773	187,449	7,267,407	7,432,373
Subordinated debt in PSSSL ⁽¹⁾	—	—	30,100,000	30,100,000
Equity	13,660,622	14,897,550	11,402,324	12,039,318
Equity interests in PSSSL	22,800,000	24,078,843	12,900,000	13,425,143
Total investments	828,786,913	833,787,192	708,514,821	710,498,782
Cash and cash equivalents	48,414,852	48,407,896	18,847,673	18,910,756
Total investments and cash and cash equivalents	\$877,201,765	\$882,195,088	\$727,362,494	\$729,409,538

⁽¹⁾During the three months ended March 31, 2018, our subordinated debt in PSSSL was restructured to be first lien secured debt.

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

Industry Classification	March 31, 2018		September 30, 2017 ⁽¹⁾	
	(1)			
High Tech Industries	14	%	10	%
Consumer Goods: Non-Durable	13		8	
Business Services	10		4	
Hotel, Gaming and Leisure	7		8	
Telecommunications	7		7	

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

Beverage, Food and Tobacco	6	7	
Aerospace and Defense	5	5	
Capital Equipment	5	5	
Consumer Goods: Durable	5	6	
Healthcare and Pharmaceuticals	5	9	
Chemicals, Plastics and Rubber	4	4	
Wholesale	4	5	
Media: Advertising, Printing and Publishing	3	4	
Media: Diversified and Production	3	4	
Banking, Finance, Insurance and Real Estate	2	1	
Construction and Building	2	3	
Retail	2	3	
Media: Broadcasting and Subscription	1	3	
All Other	2	4	
Total	100	%	100 %

⁽¹⁾Excludes investments in PSSSL.

PennantPark Senior Secured Loan Fund I LLC

In May 2017, we and Kemper formed PSSSL, an unconsolidated joint venture. PSSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSSL was formed as a Delaware limited liability company. As of March 31, 2018, PSSSL had total assets of \$239.9 million. As of the same date, we and Kemper had remaining commitments to fund first lien secured debt and equity interests in PSSSL in an aggregate of \$18.1 million. PSSSL invests in portfolio companies in the same industries in which we may directly invest. During the three months ended March 31, 2018, the terms of our debt investment in PSSSL were modified to eliminate the subordination provision and to grant us a security interest in certain assets of PSSSL.

We provide capital to PSSSL in the form of first lien secured debt and equity interests. As of March 31, 2018, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding first lien secured debt and equity interests. As of the same date, our investment in PSSSL consisted of equity interests of \$22.8 million and first lien secured debt of \$53.2 million. As of the same date, we had commitments to fund first lien secured debt to PSSSL of \$64.3 million, of which \$11.1 million was unfunded. As of March 31, 2018, we had commitments to fund equity interests in PSSSL of \$27.6 million, of which \$4.8 million was unfunded.

We and Kemper each appointed two members to PSSSL's four person board of directors and investment committee. All material decisions with respect to PSSSL, including those involving its investment portfolio, require unanimous approval of a quorum of the board of directors or investment committee. Quorum is defined as (i) the presence of two members of the board of directors or investment committee; provided that at least one individual is present that was elected, designated or appointed by each member; (ii) the presence of three members of the board of directors or investment committee, provided that the individual that was elected, designated or appointed by the member with only one individual present shall be entitled to cast two votes on each matter; and (iii) the presence of four members of the board of directors or investment committee shall constitute a quorum, provided that two individuals are present that

were elected, designated or appointed by each member.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

Additionally, PSSSL has entered into a senior secured revolving credit facility, or the PSSSL Credit Facility, with Capital One, N.A. through its wholly-owned subsidiary PennantPark Senior Secured Loan Facility LLC, or PSSSL Subsidiary, which as of March 31, 2018 allowed PSSSL Subsidiary to borrow up to \$210.0 million at any one time outstanding, subject to leverage and borrowing base restrictions.

Below is a summary of PSSSL's portfolio at fair value:

	March 31, 2018		September 30, 2017
Total investments	\$221,213,574		\$99,994,314
Weighted average cost yield on income producing investments	7.6	%	7.2
Number of portfolio companies in PSSSL	30		18
Largest portfolio company investment	\$13,135,874		\$8,080,000
Total of five largest portfolio company investments	\$62,437,832		\$34,935,330

Below is a listing of PSSSL's individual investments as of March 31, 2018:

PennantPark Senior Secured Loan Fund I LLC
Schedule of Investments
March 31, 2018
(Unaudited)

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread	Par	Cost	Fair Value ⁽²⁾
				Above			

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

Index ⁽¹⁾

Investments in Non-Controlled, Non-Affiliated
Portfolio Companies—803.9%

First Lien Secured
Debt—803.9%

Alvogen Pharma US, Inc. ⁽³⁾	04/04/2022	Healthcare and Pharmaceuticals	6.88	%	1M L+500	5,522,843	\$5,462,516	\$5,529,747
American Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	6.94	%	3M L+525	4,987,406	4,942,249	4,912,594
Anvil International, LLC	08/01/2024	Construction and Building	6.29	%	2M L+450	4,975,000	4,927,486	5,018,531
API Technologies Corp.	04/22/2022	Aerospace and Defense	8.23	%	3M L+650	4,892,947	4,850,313	4,917,412
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	9.11	%	3M L+725	10,837,152	10,587,854	10,837,152
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.33	%	3M L+650	6,483,750	6,423,327	6,491,475
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.63	%	1M L+575	7,462,217	7,416,826	7,499,528
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	7.30	%	3M L+500	4,750,395	4,750,395	4,558,778
DBI Holdings, LLC	08/02/2021	Business Services	7.13	%	1M L+525	12,500,000	12,380,173	12,500,000
DigiCert Holdings, Inc.	10/31/2024	High Tech Industries	6.52	%	3M L+475	8,000,000	7,962,812	8,085,040
Digital Room Holdings, Inc.	12/29/2023	Media: Advertising, Printing and Publishing	6.88	%	1M L+500	9,975,000	9,876,442	9,900,188
DISA Global Solutions, Inc.	12/09/2020	Business Services	5.91	%	1M L+425	4,744,586	4,733,745	4,720,863
Douglas Products and Packaging Company LLC	03/29/2022	Chemicals, Plastics and Rubber	8.05	%	3M L+575	12,500,000	12,281,563	12,281,250
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.42	%	1M L+475	4,875,000	4,832,032	4,875,000
IGM RFE1 B.V. ⁽³⁾ , ⁽⁴⁾	10/12/2021	Chemicals, Plastics and Rubber	8.00	%	3M E+800	€9,874,214	11,827,478	12,145,708
Impact Sales, LLC	12/30/2021	Wholesale	8.69	%	2M L+700	4,959,849	4,946,246	4,959,849
Infrastructure Supply Operations Pty Ltd. ⁽³⁾ , ⁽⁴⁾	12/12/2023	Wholesale	6.56	%	1M L+475	A \$10,000,000	7,297,298	7,434,996
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	7.69	%	1M L+600	7,359,375	7,419,949	7,310,288
Manna Pro Products, LLC	12/08/2023	Consumer Goods: Non-Durable	7.71	%	1M L+600	6,982,500	6,881,903	6,915,963

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

		Media:		P+275	C		
Marketplace Events LLC ⁽⁴⁾	01/27/2021	Diversified and Production	6.87 %		\$6,000,000	4,614,469	4,656,936
		Consumer		1M			
Maytex Mills, Inc.	12/27/2023	Goods: Durable	6.32 %	L+450	8,977,500	8,933,457	9,033,609
		High Tech		1M			
McAfee, LLC	09/30/2024	Industries	6.38 %	L+450	7,462,500	7,392,727	7,533,991
Mission Critical		Capital		3M			
Electronics, Inc.	09/28/2022	Equipment	6.84 %	L+500	4,054,859	4,032,413	4,037,865
		Consumer		3M			
		Goods:		L+600			
Morphe, LLC	02/10/2023	Non-Durable	8.30 %		13,201,883	13,060,451	13,135,874
		Beverage, Food		1M			
Snak Club, LLC	07/19/2021	and Tobacco	7.16 %	L+500	4,781,245	4,781,245	4,757,339
Sonny's Enterprises, LLC		Capital		1M			
	12/01/2022	Equipment	6.38 %	L+475	9,975,000	9,978,117	9,975,000
		Media:		2M			
The Infosoft Group, LLC		Broadcasting		L+525			
	12/02/2021	and Subscription	7.25 %		5,099,730	5,099,731	5,099,730
		Capital		1M			
UBEO, LLC	04/03/2024	Equipment	6.39 %	L+450	12,500,000	12,375,000	12,375,000
VIP Cinema		Consumer		3M			
Holdings, Inc.	03/01/2023	Goods: Durable	8.31 %	L+600	4,750,000	4,810,455	4,788,618
Whitney, Bradley & Brown, Inc.		Aerospace and		1M			
	10/18/2022	Defense	10.89 %	L+900	4,975,000	4,882,758	4,925,250
Total First Lien Secured Debt						219,761,430	221,213,574
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						219,761,430	221,213,574
Cash and Cash Equivalents—58.2%							
BlackRock Federal FD Institutional 30						15,545,814	15,545,814
US Bank Cash						472,756	469,777
Total Cash and Cash Equivalents						16,018,570	16,015,591
Total Investments and Cash Equivalents—862.1%						\$235,780,000	\$237,229,165
Liabilities in Excess of Other Assets—(762.1)%							(209,710,489)
Members' Equity—100.0%							\$27,518,676

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, EURIBOR or Prime rate. The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 60-day, 90-day or 180-day LIBOR rate (1M L, 2M L, 3M L, or 6M L, respectively), and EURIBOR loans are typically indexed to a 90-day EURIBOR rate (3M E), at the borrower's option. 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 PSSSL's accounting policy.

(3) Non-U.S. company or principal place of business outside the United States.

(4) Par amount is denominated in Australian Dollars (A\$), Canadian Dollars (C\$) or in Euros (€) as denoted.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

Below is a listing of PSSSL's individual investments as of September 30, 2017:

PennantPark Senior Secured Loan Fund I LLC
Schedule of Investments
September 30, 2017

				Basis Point				
				Spread				
				Current	Above			
Issuer Name	Maturity	Industry	Coupon	Index ⁽¹⁾	Par	Cost	Fair Value ⁽²⁾	
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—651.7%								
First Lien Secured Debt—674.2%								
Alvogen Pharma US, Inc. ⁽³⁾	04/04/2022	Healthcare and Pharmaceuticals	6.24	%	L+500	5,664,954	\$5,597,299	\$5,636,629
Anvil International, LLC	08/01/2024	Construction and Building	5.50	%	L+450	5,000,000	4,950,000	5,025,000
API Technologies Corp.	04/22/2022	Aerospace and Defense	7.83	%	L+650	4,955,919	4,908,646	4,906,360
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	8.57	%	L+725	5,961,702	5,819,267	5,961,702
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.08	%	L+575	7,500,000	7,453,125	7,425,000
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	6.24	%	L+500	4,875,132	4,875,132	4,807,559
DigiCert Holdings, Inc.	10/31/2024	High Tech Industries	5.75	%	L+475	8,000,000	7,960,000	8,080,000
	12/09/2020	Business Services	5.55	%	L+425	4,744,586	4,732,725	4,720,863

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

DISA Global
Solutions, Inc.

Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.06	%	L+475	5,000,000	4,951,225	5,000,000
		Chemicals, Plastics and Rubber			E+800	€4,937,107		
IGM RFE1 B.V. ⁽³⁾ , ⁽⁴⁾	10/12/2021	Wholesale	8.00	%			5,742,092	5,836,653
Impact Sales, LLC	12/30/2021	Wholesale	8.30	%	L+700	4,984,962	4,970,404	4,984,963
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	7.24	%	L+600	7,453,125	7,521,186	7,468,628
Mission Critical Electronics, Inc.	09/28/2022	Capital Equipment	6.33	%	L+500	4,075,442	4,050,930	4,058,871
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	7.33	%	L+600	4,875,000	4,810,511	4,801,875
One Sixty Over Ninety, LLC	03/03/2022	Media: Advertising, Printing and Publishing	10.52	%	L+918	6,000,000	5,885,356	6,000,000
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	6.24	%	L+500	4,843,745	4,843,745	4,843,745
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	6.58	%	L+525	5,530,997	5,530,997	5,530,997
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	7.34	%	L+600	4,875,000	4,942,263	4,905,469
Total First Lien Secured Debt							99,544,903	99,994,314
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies							99,544,903	99,994,314
Cash and Cash Equivalents—15.5%								
BlackRock Federal FD Institutional 30							2,226,430	2,226,430
US Bank Cash							144,739	144,833
Total Cash and Cash Equivalents							2,371,169	2,371,263
Total Investments and Cash							\$ 101,916,072	\$ 102,365,577
Equivalents—667.2%								
Liabilities in Excess of Other Assets—(567.2)%								(87,022,556)
Members' Equity—100.0%								\$ 15,343,021

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, EURIBOR or Prime rate. 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 PSSSL's accounting policy.

(3) Non-U.S. company or principal place of business outside the United States.

(4) Par amount is denominated in Euros (€) as denoted.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

Below is the financial information for PSSL:

PennantPark Senior Secured Loan Fund I LLC
Statements of Assets and Liabilities

	March 31, 2018 (Unaudited)	September 30, 2017
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$219,761,430 and \$99,544,903, respectively)	\$ 221,213,574	\$ 99,994,314
Cash and cash equivalents (cost—\$16,018,750 and \$2,371,169, respectively)	16,015,591	2,371,263
Interest receivable	850,178	332,980
Prepaid expenses and other assets	1,779,945	1,131,029
Total assets	239,859,288	103,829,586
Liabilities		
Payable for investments purchased	12,375,000	27,095,850
PSSL Credit Facility payable	138,580,413	26,783,885
Notes payable	60,800,000	34,400,000
Interest payable on PSSL Credit Facility	465,810	97,531
Interest payable on notes	29,751	12,107
Accrued other expenses	89,638	97,192
Total liabilities	212,340,612	88,486,565
Commitments and contingencies ⁽¹⁾	—	—
Members' equity	27,518,676	15,343,021
Total liabilities and members' equity	\$ 239,859,288	\$ 103,829,586

⁽¹⁾PSSL had no unfunded commitments as of March 31, 2018 and September 30, 2017.

PennantPark Senior Secured Loan Fund I LLC
 Statements of Operations
 (Unaudited)

	Three Months Ended March 31, 2018	Six Months Ended March 31, 2018
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$3,123,487	\$5,097,142
Other income	12,219	12,219
Total investment income	3,135,706	5,109,361
Expenses:		
Interest and expenses on PSSSL Credit Facility	1,306,299	1,957,836
Interest expense on notes	1,026,403	1,638,700
Administrative services expenses	75,000	150,000
Other general and administrative expenses ⁽¹⁾	113,650	465,436
Total expenses	2,521,352	4,211,972
Net investment income	614,354	897,389
Realized and unrealized gain on investments and credit facility foreign currency translations		
Net realized gain on investments	65,122	15,946
Net change in unrealized appreciation on:		
Non-controlled, non-affiliated investments	545,340	999,702
Credit facility foreign currency translations	72,620	(251,668)
Net change in unrealized appreciation on investments and credit facility foreign currency translations	617,960	748,034
Net realized and unrealized gain from investments and credit facility foreign currency translations	683,082	763,980
Net increase in members' equity resulting from operations	\$1,297,436	\$1,661,369

⁽¹⁾Currently, no management or incentive fees are payable by PSSSL. If any fees were to be charged, they would be separately disclosed in the Statements of Operations.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value, as defined under ASC Topic 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 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.

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 were 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 first lien secured debt, but also may include second lien secured debt, subordinated debt 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 both the six months ended March 31, 2018 and 2017, our ability to observe valuation inputs resulted in no reclassifications.

In addition to using the above inputs in cash equivalents, investments, the 2023 Notes 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 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. We have adopted FASB Accounting Standards Update 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.

The remainder of our investment 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. Generally, an increase in a market yield will result in a decrease in the valuation of a debt investment, while a decrease in a market yield will have the opposite effect. Generally, an increase in an EBITDA multiple will result in an increase in the valuation of an investment, while a decrease in an EBITDA multiple will have the opposite effect.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

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

Asset Category	Fair Value at		Unobservable Input	Range of Input (Weighted Average)
	March 31, 2018	Valuation Technique		
First lien	\$275,553,819	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	2,526,250	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	482,949,651	Market Comparable	Market Yield	6.4% – 20.7% (9.6%)
Second lien	33,593,630	Market Comparable	Market Yield	10.5% – 15.9% (13.1%)
Subordinated debt / corporate notes	187,449	Market Comparable	Market Yield	17.0% – 17.0% (17.0%)
Equity	14,897,385	Enterprise Market Value	EBITDA multiple	6.5x – 11.4x (8.4x)
Total Level 3 investments	\$809,708,184			
Long-Term Credit Facility	\$191,522,414	Market Comparable	Market Yield	4.9%

Asset Category	Fair Value at		Unobservable Input	Range of Input (Weighted Average)
	September 30, 2017	Valuation Technique		
First lien	\$ 260,595,796	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	2,500,000	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	349,072,758	Market Comparable	Market Yield	5.8% – 20.6% (8.6%)
Second lien	35,333,394	Market Comparable	Market Yield	9.6% – 14.0% (11.7%)
Subordinated debt / corporate notes	37,532,373	Market Comparable	Market Yield	9.8% – 16.7% (10.4%)
Equity	12,023,298	Enterprise Market Value	EBITDA multiple	6.5x–9.0x (7.8x)
Total Level 3 investments	\$ 697,057,619			
Long-Term Credit Facility	\$ 256,858,457	Market Comparable	Market Yield	3.7%

Our investments, cash and cash equivalents, Credit Facility and the 2023 Notes were categorized as follows in the fair value hierarchy for ASC 820 purposes:

Fair Value at March 31, 2018

Description	Fair Value	Level 1	Level 2		Measured at Net Asset Value ⁽¹⁾
				Level 3	
First lien	\$758,503,470	\$—	\$	—\$758,503,470	\$—
Second lien	36,119,880	—		— 36,119,880	—
Subordinated debt / corporate notes	187,449	—		— 187,449	—
Equity	38,976,393	165		— 14,897,385	24,078,843
Total investments	833,787,192	165		— 809,708,184	24,078,843
Cash and cash equivalents	48,407,896	48,407,896		— —	—
Total investments and cash and cash equivalents	\$882,195,088	\$48,408,061	\$	—\$809,708,184	\$24,078,843
Long-Term Credit Facility	\$191,522,414	\$—	\$	—\$191,522,414	\$—
2023 Notes	131,872,593	131,872,593		— —	—
Total debt	\$323,395,007	\$131,872,593	\$	—\$191,522,414	\$—

⁽¹⁾In accordance with ASC Subtopic 820-10, Fair Value Measurements and Disclosures, or ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value, have not been classified in the fair value hierarchy.

Fair Value at September 30, 2017

Description	Fair Value	Level 1	Level 2		Measured at Net Asset Value ⁽¹⁾
				Level 3	
First lien	\$609,668,554	\$—	\$	—\$609,668,554	\$—
Second lien	37,833,394	—		— 37,833,394	—
Subordinated debt / corporate notes	37,532,373	—		— 37,532,373	—
Equity	25,464,461	16,020		— 12,023,298	13,425,143
Total investments	710,498,782	16,020		— 697,057,619	13,425,143
Cash and cash equivalents	18,910,756	18,910,756		— —	—
Total investments and cash and cash equivalents	\$729,409,538	\$18,926,776	\$	—\$697,057,619	\$13,425,143
Long-Term Credit Facility	\$256,858,457	\$—	\$	—\$256,858,457	\$—

⁽¹⁾In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value, have not been classified in the fair value hierarchy.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

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

Description	Six Months Ended March 31, 2018		
	First lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance	\$609,668,554	\$100,814,208	\$710,482,762
Net realized (losses) gains	(1,788,577)	1,285,506	(503,071)
Net unrealized appreciation	1,950,250	1,081,922	3,032,172
Purchases, PIK interest, net discount accretion and non-cash exchanges	328,005,097	41,654,355	369,659,452
Sales, repayments and non-cash exchanges	(179,331,854)	(69,552,434)	(248,884,288)
Transfers in and/or out of Level 3	—	—	—
Ending Balance	\$758,503,470	\$75,283,557	\$833,787,027
Net change in unrealized appreciation reported within the net change in unrealized appreciation (depreciation) on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$1,574,094	\$1,539,966	\$3,114,060

Description	Six Months Ended March 31, 2017		
	First lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance	\$548,410,095	\$47,412,741	\$595,822,836
Net realized gains	951,500	266,219	1,217,719
Net unrealized appreciation	2,866,849	(1,722,503)	1,144,346
Purchases, PIK interest, net discount accretion and non-cash exchanges	259,894,855	12,347,053	272,241,908
Sales, repayments and non-cash exchanges	(129,865,230)	(10,652,807)	(140,518,037)
Transfers in and/or out of Level 3	—	—	—
Ending Balance	\$682,258,069	\$47,650,703	\$729,908,772

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

Net change in unrealized appreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.

\$2,343,073 \$(1,475,547) \$867,526

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

Long-Term Credit Facility	Six Months Ended March 31,	
	2018	2017
Beginning Balance (cost – \$253,783,301 and \$232,907,500, respectively)	\$256,858,457	\$232,389,498
Net change in unrealized (depreciation) appreciation included in earnings	(1,726,053)	1,029,406
Borrowings	61,485,010	196,502,000
Repayments	(125,095,000)	(129,500,000)
Transfers in and/or out of Level 3	—	—
Ending Balance (cost – \$190,173,311 and \$299,909,500, respectively)	\$191,522,414	\$300,420,904

As of March 31, 2018, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
Australian Dollar				April 3, 2018	
	A \$ 14,900,000	\$ 11,485,010	\$ 11,439,445		\$ (45,565)
Canadian Dollar				April 3, 2018	
	C \$ 17,500,000	12,407,500	13,582,730		1,175,230
Euro				April 3, 2018	
	€ 7,200,000	7,480,800	8,856,310		1,375,510
		\$ 31,373,310	\$ 33,878,485		\$ 2,505,175

As of September 30, 2017, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
Canadian Dollar	C \$17,500,000	\$12,407,501	\$13,992,720	October 2, 2017	\$1,585,219
Euro	€12,200,000	12,675,800	14,422,852	October 2, 2017	1,747,052
		\$25,083,301	\$28,415,572		\$3,332,271

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

The carrying value of our consolidated financial liabilities approximates fair value. We have adopted the principles under ASC Subtopic 825-10, Financial Instruments, or 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 and the 2023 Notes. We elected to use the fair value option for our Credit Facility and the 2023 Notes 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 incurred expenses of zero and \$10.9 million relating to amendment costs on the Credit Facility and debt issuance costs on the 2023 Notes during the three and six months ended March 31, 2018. There were no expenses relating to amendment or debt issuance costs on our debt for the three and six months ended March 31, 2017. 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 and the 2023 Notes 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 six months ended March 31, 2018, our Credit Facility and the 2023 Notes had a net change in unrealized depreciation of \$5.3 million and \$8.4 million, respectively. For the three and six months ended March 31, 2017, our Credit Facility had a net change in unrealized depreciation (appreciation) of less than \$0.1 million and (\$1.0) million, respectively. As of March 31, 2018 and September 30, 2017, the net unrealized depreciation (appreciation) on our Credit Facility and the 2023 Notes totaled \$5.4 million and \$(3.1) million, 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. Our 2023 Notes trade on the TASE and we use the closing price on the exchange to determine the fair value.

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 six months ended March 31, 2018 were as follows:

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

Name of Investment	Fair Value at September 30, 2017	Purchases of / Advances to Affiliates	Sale of / Distributions from Affiliates	Interest Income	Dividend Income	Net Change in Appreciation	Fair Value at March 31, 2018	Net Realized Gains (Losses)
Controlled Affiliates								
PennantPark Senior Secured Loan Fund I LLC *	\$43,525,143	\$33,000,000	\$ —	\$1,433,863	\$700,000	\$753,700	\$77,278,843	\$ —
Total Controlled Affiliates	\$43,525,143	\$33,000,000	\$ —	\$1,433,863	\$700,000	\$753,700	\$77,278,843	\$ —

*We and Kemper are the members of PSSSL, a joint venture formed as a Delaware limited liability company that is not consolidated by us for financial reporting purposes. The members of PSSSL make investments in the PSSSL in the form of equity interests and first lien secured debt, and all portfolio and other material decision regarding PSSSL must be submitted to PSSSL's board of directors or investment committee, both of which are comprised of two members appointed by each of us and Kemper. Because management of PSSSL is shared equally between us and Kemper, we do not believe we control PSSSL for purposes of the 1940 Act or otherwise.

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 March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Numerator for net increase in net assets resulting from operations	\$15,589,760	\$7,283,145	\$17,508,542	\$16,132,054
Denominator for basic and diluted weighted average shares	38,772,074	29,413,407	37,823,481	28,056,997
Basic and diluted net increase in net assets per share resulting from operations	\$0.40	\$0.25	\$0.46	\$0.57

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 average 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 March 31, 2018 and September 30, 2017, cash and cash equivalents consisted of money market funds in the amounts of \$48.4 million and \$18.9 million at fair value, respectively.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

9. FINANCIAL HIGHLIGHTS

Below are the financial highlights:

	Six Months Ended March 31,			
	2018		2017	
Per Share Data:				
Net asset value, beginning of period	\$14.10		\$14.06	
Net investment income ⁽¹⁾	0.20		0.53	
Net change in realized and unrealized gain ⁽¹⁾	0.26		0.04	
Net increase in net assets resulting from operations ⁽¹⁾	0.46		0.57	
Distributions to stockholders ^{(1), (2)}	(0.57)		(0.58)	
(Dilutive) effect of common stock issuance	(0.01)		—	
Net asset value, end of period	\$13.98		\$14.05	
Per share market value, end of period	\$13.09		\$13.94	
Total return* ⁽³⁾	(5.70)%		9.81 %	
Shares outstanding at end of period	38,772,074		32,480,074	
Ratios** / Supplemental Data:				
Ratio of operating expenses to average net assets ⁽⁴⁾	2.61	%	3.60	%
Ratio of debt related expenses to average net assets ⁽⁵⁾	4.36	%	1.90	%
Ratio of total expenses to average net assets ⁽⁵⁾	6.97	%	5.50	%
Ratio of net investment income to average net assets ⁽⁵⁾	4.88	%	7.43	%
Net assets at end of period	\$541,959,970		\$456,226,690	
Weighted average debt outstanding	\$311,499,862		\$260,949,248	
Weighted average debt per share ⁽¹⁾	\$8.24		\$9.30	
Asset coverage per unit ⁽⁶⁾	\$2,676		\$2,519	
Portfolio turnover ratio	52.08	%	43.76	%

*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, which was terminated on November 22, 2017.

(4) Excludes debt related costs.

(5) Credit Facility amendment and debt issuance 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. DEBT

The annualized weighted average cost of debt for the six months ended March 31, 2018 and 2017, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility, amendment costs and debt issuance costs, was 7.40% and 2.91%, respectively. As of March 31, 2018, in accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with a 200% asset coverage ratio after such borrowing.

Credit Facility

Funding I's multi-currency Credit Facility with affiliates of SunTrust Bank, or the Lenders, was \$405 million as of March 31, 2018, subject to satisfaction of certain conditions and the 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 November 2022 and a revolving period that ends in November 2020. As of March 31, 2018 and September 30, 2017, Funding I had \$190.2 million and \$253.8 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 3.79% and 3.18%, exclusive of the fee on undrawn commitments as of March 31, 2018 and September 30, 2017, 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 November 2022. 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 March 31, 2018, 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. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

MARCH 31, 2018

(Unaudited)

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.

2023 Notes

In November 2017, we issued \$138.6 million of our 2023 Notes pursuant to a deed of trust between the Company and Mishmeret Trust Company, Ltd. as trustee.

The 2023 Notes pay interest at a rate of 3.83% per year. Interest on the 2023 Notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing June 15, 2018. The principal on the 2023 Notes is payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% of the original principal amount on

December 15, 2023.

The 2023 Notes are general, unsecured obligations, rank equal in right of payment with all of PennantPark Floating Rate Capital Ltd.'s existing and future unsecured indebtedness and are generally redeemable at our option. The deed of trust governing the 2023 Notes includes certain customary covenants, including minimum equity requirements, and events of default. Please refer to the deed of trust filed as Exhibit (d)(8) to our post-effective amendment filed on December 13, 2017 for more information. The 2023 Notes are rated ilAA- by S&P Global Ratings Maalot Ltd. and are listed for trading on the TASE. In connection with this offering, we have dual listed our common stock on the TASE.

The 2023 Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration under the Securities Act or in transactions exempt from, or not subject to, such registration requirements.

11. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings, 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 and equity investments, if any, are disclosed in the Consolidated Schedules of Investments. As of March 31, 2018 and September 30, 2017, we had \$48.2 million and \$30.6 million, respectively, in commitments to fund investments. Additionally, as described in Note 4, the Company had commitments of up to \$15.9 million and \$44.6 million to PSSSL as of March 31, 2018 and September 30, 2017, respectively, that may be contributed primarily for the purpose of funding new investments approved by the PSSSL board of directors or investment committee.

12. SUBSEQUENT EVENTS

In May 2018 we doubled the financial capacity of PSSSL. We and Kemper each increased our respective debt and equity investments in PSSSL while continuing to own 87.5% and 12.5%, respectively, of each of the outstanding first lien secured debt and equity interests. Our commitments to fund first lien secured debt to PSSSL were increased by \$64.3 million and our commitments to fund equity interests in PSSSL were increased by \$27.6 million. Additionally, the PSSSL Credit Facility was amended to, among other things, allow PSSSL Subsidiary to borrow up to \$420.0 million at any one time outstanding, subject to leverage and borrowing base restrictions.

Through April 30, 2018, we have made investments totaling \$62.8 million and PSSSL has made investments totaling \$43.0 million (of which \$12.4 million was purchased from the Company).

On April 5, 2018, our board of directors approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the Small Business Credit Availability Act). As a result, the asset coverage requirements applicable to us for senior securities will be reduced from 200% to 150%, effective as of April 5, 2019, subject to compliance with certain disclosure requirements. As of March 31, 2018 and September 30, 2017, our asset coverage ratio, as computed in accordance with the 1940 Act, was 268% and 278%, respectively.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of PennantPark Floating Rate Capital Ltd. and its Subsidiaries

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated statement 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 March 31, 2018, the related consolidated statements of operations for the three-month and six-month periods ended March 31, 2018 and 2017, the related consolidated statements of changes in net assets and cash flows for the six-month periods ended March 31, 2018 and 2017 and the related notes to the consolidated financial statements (collectively, the interim financial statements). Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of assets and liabilities of the Company, including the consolidated schedule of investments, as of September 30, 2017, and the related consolidated statement of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 30, 2017, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated statements of assets and liabilities as of September 30, 2017, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company’s management. We conducted our reviews in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures 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 PCAOB, 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. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

/s/ RSM US LLP

New York, New York

May 10, 2018

28

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 and foreign exchange 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 and ability to fund capital commitments to PSSL;
- 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 market;
- the ability of our 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; and
- the impact of European sovereign debt, Brexit and other world economic and political 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 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 both current income and capital appreciation while seeking to preserve capital 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.

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 first lien secured debt 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 secured debt and subordinated debt and, to a lesser extent, equity investments. We seek to create a diversified portfolio by generally targeting an investment size between \$5 million and \$30 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 debt capital, 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.

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 first lien secured debt, second lien secured debt or subordinated 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, our investments provide for deferred interest payments and 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

significant managerial assistance and possibly consulting fees. Loan origination fees, OID and market discount or premium are capitalized and accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. 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. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned. Litigation settlements are accounted for in accordance with the gain contingency provisions of ASC 450-30.

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 various debt facilities. 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 exchange listing fees;
- federal, state, local and foreign taxes;
- independent directors' fees and expenses;

•brokerage commissions;

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

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

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

•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 March 31, 2018, our portfolio totaled \$833.8 million and consisted of \$758.5 million of first lien secured debt (of which \$53.2 million was invested in PSSSL), \$36.1 million of second lien secured debt and \$39.2 million of subordinated debt, preferred and common equity (of which \$24.1 million was invested in PSSSL). Our debt portfolio consisted of 100% variable-rate investments (including 5% where LIBOR was below the floor). As of March 31, 2018, we had one company on non-accrual, representing 0.3% and 0.1% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized appreciation of \$5.0 million. Our overall portfolio consisted of 86 companies with an average investment size of \$9.7 million, had a weighted average yield on debt investments of 8.6%, and was invested 91% in first lien secured debt (of which 6% was invested in PSSSL), 4% in second lien secured debt and 5% in subordinated debt, preferred and common equity (of which 3% was invested in PSSSL). As of March 31, 2018, all of the investments held by PSSSL were first lien secured debt.

As of September 30, 2017, our portfolio totaled \$710.5 million and consisted of \$609.7 million of first lien secured debt, \$37.8 million of second lien secured debt,

\$37.5 million of subordinated debt (of which \$30.1 million was invested in PSSSL) and \$25.5 million of preferred and common equity (of which \$13.4 million was invested in PSSSL). Our debt portfolio consisted of 99% variable-rate investments (including 7% where LIBOR was below the floor) and 1% fixed-rate investments. As of September 30, 2017, we had one company on non-accrual, representing 0.4% and 0.2% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized appreciation of \$2.0 million. Our overall portfolio consisted of 82 companies with an average investment size of \$8.7 million, had a weighted average yield on debt investments of 8.0%, and was invested 86% in first lien secured debt, 5% in second lien secured debt, 5% in subordinated debt (of which 4% was invested in PSSSL) and 4% in preferred and common equity (of which 2% was invested in PSSSL). As of September 30, 2017, all of the investments held by PSSSL were first lien secured debt.

For the three months ended March 31, 2018, we invested \$138.5 million in six new and 17 existing portfolio companies with a weighted average yield on debt investments of 7.8%. Sales and repayments of investments for the three months ended March 31, 2018 totaled \$46.6 million. For the six months ended March 31, 2018, we invested \$315.3 million in 17 new and 28 existing portfolio companies with a weighted average yield on debt investments of 7.9%. Sales and repayments of investments for the six months ended March 31, 2018 totaled \$195.7 million.

For the three months ended March 31, 2017, we invested \$146.3 million in nine new and 10 existing portfolio companies with a weighted average yield on debt investments of 7.8%. Sales and repayments of investments for the three months ended March 31, 2017 totaled \$71.5 million. For the six months ended March 31, 2017, we invested

\$271.1 million in 21 new and 23 existing portfolio companies with a weighted average yield on debt investments of 7.7%. Sales and repayments of investments for the six months ended March 31, 2017 totaled \$141.9 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 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.

Investment Valuations

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 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;
- (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 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. Our 2023 Notes are classified as Level 1. 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, our 2023 Notes 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 have adopted the principles under 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 and the 2023 Notes. We elected to use the fair value option for our Credit Facility and the 2023 Notes 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 incurred expenses of zero and \$10.9 million relating to amendment costs on the Credit Facility and debt issuance costs on the 2023 Notes during the three and six months ended March 31, 2018. There were no expenses relating to amendment or debt issuance costs on our debt for the three and six months ended March 31, 2017. 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 and the 2023 Notes 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 six months ended March 31, 2018, our Credit Facility and the 2023 Notes had a net change in unrealized depreciation of \$5.3 million and \$8.4 million, respectively. For the three and six months ended March 31, 2017, our Credit Facility had a net change in unrealized depreciation (appreciation) of less than \$0.1 million and (\$1.0) million, respectively. As of March 31, 2018 and September 30, 2017, the net unrealized depreciation (appreciation) on our Credit Facility and the 2023 Notes totaled \$5.4 million and \$(3.1) million, 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. Our 2023 Notes trade on the TASE and we use the closing price on the exchange to determine the fair value.

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 collectable. 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 or, in the case of deferred financing costs, as interest expense. 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. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

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, our Credit Facility and the 2023 Notes 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 value of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

Payment-in-Kind or PIK Interest

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. In order for us to maintain our ability to be subject to tax as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends for U.S. federal income tax purposes, even though we may not have collected any cash with respect to interest on PIK securities.

Federal Income Taxes

We have elected to be treated, and intend to qualify annually to maintain our election to be treated, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain annual source-of-income and quarterly asset diversification requirements. We also must annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution 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, determined without regard to any deduction for dividends paid.

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 for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of the excess, if any, of our capital gains over our capital losses, or capital gain net income (adjusted for certain ordinary 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 did not incur any 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 continue to retain such net capital gains or investment company taxable income, subject to maintaining our ability to be subject to tax as a RIC, in order 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 gain 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 appropriate tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

We have formed and expect to continue to form certain taxable subsidiaries, including the Taxable Subsidiary, which are taxed as corporations. The Taxable Subsidiary allows us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while allowing us to maintain our ability to qualify as a RIC under the Code.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the three and six months ended March 31, 2018 and 2017.

Investment Income

Investment income for the three and six months ended March 31, 2018 was \$16.5 million and \$31.3 million, respectively, and was attributable to \$13.2 million and \$26.8 million from first lien secured debt and \$3.3 million and \$4.5 million from second lien secured debt, subordinated debt and preferred and common equity, respectively. This compares to investment income for the three and six months ended March 31, 2017, which was \$13.2 million and \$25.9 million, respectively, and was attributable to \$12.0 million and \$23.3 million from first lien senior debt and \$1.2 million and \$2.6 million from second lien secured debt and subordinated debt, respectively. The increase in investment income compared to the same periods in the prior year was primarily due to the growth of our portfolio.

Expenses

Expenses for the three and six months ended March 31, 2018 totaled \$7.1 million and \$23.9 million, respectively. Base management fee for the same periods totaled \$1.9 million and \$3.8 million, incentive fee totaled \$0.4 million (including \$0.2 million on unrealized gains accrued but not payable) and \$0.5 million (including \$0.4 million on unrealized gains accrued but not payable), debt related interest and expenses totaled \$3.5 million and \$17.0 million (including \$10.9 million in Credit Facility amendment and debt issuance costs on the 2023 Notes), general and administrative expenses totaled \$1.1 million and \$2.2 million and provision for taxes totaled \$0.2 million and \$0.4 million, respectively. This compares to expenses for the three and six months ended March 31, 2017, which totaled \$5.2 million and \$11.0 million, respectively. Base management fee for the same periods totaled \$1.7 million and \$3.3 million, incentive fee totaled \$0.5 million (including \$(0.1) million on unrealized gains accrued but not payable) and \$1.9 million (including \$0.5 million on unrealized gains accrued but not payable), Credit Facility expenses totaled \$2.0 million and \$3.8 million, general and administrative expenses totaled \$0.9 million and \$1.9 million and provision for taxes totaled \$0.1 million and \$0.1 million, respectively. The increase in expenses compared to the same periods in the prior year was primarily due to the expenses incurred in connection with the Credit Facility amendment and debt issuance costs on the 2023 Notes in the current period, which was partially offset by a reduction in incentive fees.

Net Investment Income

Net investment income totaled \$9.4 million and \$7.5 million, or \$0.24 and \$0.20 per share, for the three and six months ended March 31, 2018, respectively. Net investment income totaled \$8.0 million and \$14.9 million, or \$0.27 and \$0.53 per share, for the three and six months ended March 31, 2017, respectively. The increase in net investment income for the three months ended March 31, 2018 compared to the same period in the prior year was primarily due to the growth of our portfolio, partially offset by higher recurring debt related interest and expense. The decrease in net investment income for the six months ended March 31, 2018 compared to the same period in the prior year was primarily due to the expenses incurred in connection with the Credit Facility amendment and debt issuance costs on the 2023 Notes in the current period.

Net Realized Gains or Losses

Sales and repayments of investments for the three and six months ended March 31, 2018 totaled \$46.6 million and \$195.7 million, respectively, and net realized gains (losses) totaled \$1.5 million and \$(1.3) million, respectively. Sales and repayments of investments for the three and six months ended March 31, 2017 totaled \$71.5 million and \$141.9 million, respectively, and net realized gains totaled \$2.0 million and \$2.5 million, respectively. The change in realized gains/losses was primarily due to changes in the market conditions of our investments and the values at which they were realized.

Unrealized Appreciation or Depreciation on Investments, the Credit Facility and the 2023 Notes

For the three and six months ended March 31, 2018, we reported net change in unrealized (depreciation) appreciation on investments of \$(0.6) million and \$2.9 million, respectively. For the three and six months ended March 31, 2017, we reported net change in unrealized depreciation on investments of \$2.7 million and \$0.2 million, respectively. As of March 31, 2018 and September 30, 2017, our net unrealized appreciation on investments totaled \$5.0 million and \$2.0 million, respectively. The net change in unrealized appreciation/depreciation on our investments compared to the same periods in the prior year was primarily due to changes in the capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized appreciation/depreciation on investments that were realized.

For the three and six months ended March 31, 2018, our Credit Facility and the 2023 Notes had a net change in unrealized depreciation of \$5.3 million and \$8.4 million, respectively. For the three and six months ended March 31, 2017, our Credit Facility had a net change in unrealized depreciation (appreciation) of less than \$0.1 million and \$(1.0) million, respectively. As of March 31, 2018 and September 30, 2017, our net unrealized depreciation (appreciation) on the Credit Facility and the 2023 Notes totaled \$5.4 million and \$(3.1) million, respectively. The net change in unrealized depreciation compared to the same periods in the prior year was primarily due to changes in the capital markets.

Net Change in Net Assets Resulting from Operations

Net change in net assets resulting from operations totaled \$15.6 million and \$17.5 million, or \$0.40 and \$0.46 per share, respectively, for the three and six months ended March 31, 2018. This compares to a net change in net assets resulting from operations of \$7.3 million and \$16.1 million, or \$0.25 and \$0.57 per share, respectively, for the three and six months ended March 31, 2017. The increase in the net change in net assets from operations compared to the same periods in the prior year was primarily due to the growth of our portfolio, partially offset by the expenses incurred in connection with the Credit Facility amendment and debt issuance costs on the 2023 Notes in the current period.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt capital and 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 debt capital, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives. As of March 31, 2018, in accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we

are in compliance with a 200% asset coverage ratio after such borrowing.

Funding I's multi-currency Credit Facility with the Lenders was \$405 million as of March 31, 2018, 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 November 2022 and a revolving period that ends in November 2020. As of March 31, 2018 and September 30, 2017, Funding I had \$190.2 million and \$253.8 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 3.79% and 3.18%, exclusive of the fee on undrawn commitments as of March 31, 2018 and September 30, 2017, respectively.

The annualized weighted average cost of debt for the six months ended March 31, 2018 and 2017, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility, amendment costs and debt issuance costs, was 7.40% and 2.91%, respectively (excluding amendment and debt issuance costs, amounts are 3.91% and 2.91%, respectively). As of March 31, 2018 and September 30, 2017, we had \$214.8 million and \$121.2 million of unused borrowing capacity under our Credit Facility, respectively, subject to the 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 November 2022. 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 March 31, 2018, 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. 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.

In November 2017, we issued \$138.6 million of our 2023 Notes. The 2023 Notes were issued pursuant to a deed of trust between the Company and Mishmeret Trust Company, Ltd. as trustee.

The 2023 Notes pay interest at a rate of 3.83% per year. Interest on the 2023 Notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing June 15, 2018. The principal on the 2023 Notes will be payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% of the original principal amount on December 15, 2023.

The 2023 Notes are general, unsecured obligations, rank equal in right of payment with all of our existing and future unsecured indebtedness and are generally redeemable at our option. The deed of trust governing the 2023 Notes includes certain customary covenants, including minimum equity requirements, and events of default. Please refer to the deed of trust filed as Exhibit (d)(8) to our post-effective amendment filed on December 13, 2017 for more information. The 2023 Notes are rated ilAA- by S&P Global Ratings Maalot Ltd. and are listed on the TASE. In connection with this offering, we have dual listed our common stock on the TASE.

The 2023 Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration under the Securities Act or in transactions exempt from, or not subject to, such registration requirements.

We may raise equity or debt capital through both registered offerings off our shelf registration statement 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. For the six months ended March 31, 2018 and 2017, we issued 6.3 million and 5.8 million shares, respectively. As a result, we raised approximately \$88.0 million and \$80.5 million in net proceeds from our issuances of our equity capital, respectively.

As of March 31, 2018 and September 30, 2017, we had cash equivalents of \$48.4 million and \$18.9 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 \$111.7 million for the six months ended March 31, 2018, and our financing activities provided cash of \$142.1 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from a follow-on equity offering and the issuance of the 2023 Notes, partially offset by net repayments under the Credit Facility.

Our operating activities used cash of \$116.7 million for the six months ended March 31, 2017, and our financing activities provided cash of \$131.7 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from a follow-on equity offering and net borrowings under the Credit Facility.

PennantPark Senior Secured Loan Fund I LLC

In May 2017, we and Kemper formed PSSSL, an unconsolidated joint venture. PSSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSSL was formed as a Delaware limited liability company. As of March 31, 2018, PSSSL had total assets of \$239.9 million. As of the same date, we and Kemper had remaining commitments to fund first lien secured debt and equity interests in PSSSL in an aggregate of \$18.1 million. PSSSL invests in portfolio companies in the same industries in which we may directly invest. During the three months ended March 31, 2018, the terms of our debt investment in PSSSL were modified to eliminate the subordination provision and to grant us a security interest in certain assets of PSSSL.

We provide capital to PSSSL in the form of first lien secured debt and equity interests. As of March 31, 2018, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding first lien secured debt and equity interests. As of the same date, our investment in PSSSL consisted of equity interests of \$22.8 million and first lien secured debt of \$53.2 million. As of the same date, we had commitments to fund first lien secured debt to PSSSL of \$64.3 million, of

which \$11.1 million was unfunded. As of March 31, 2018, we had commitments to fund equity interests in PSSSL of \$27.6 million, of which \$4.8 million was unfunded.

We and Kemper each appointed two members to PSSSL's four person board of directors and investment committee. All material decisions with respect to PSSSL, including those involving its investment portfolio, require unanimous approval of a quorum of the board of directors or investment committee. Quorum is defined as (i) the presence of two members of the board of directors or investment committee; provided that at least one individual is present that was elected, designated or appointed by each member; (ii) the presence of three members of the board of directors or investment committee, provided that the individual that was elected, designated or appointed by the member with only one individual present shall be entitled to cast two votes on each matter; and (iii) the presence of four members of the board of directors or investment committee shall constitute a quorum, provided that two individuals are present that were elected, designated or appointed by each member.

Additionally, PSSSL has entered into the PSSSL Credit Facility with Capital One, N.A. through its wholly-owned subsidiary, PSSSL Subsidiary, which as of March 31, 2018 allowed PSSSL Subsidiary to borrow up to \$210.0 million at any one time outstanding, subject to leverage and borrowing base restrictions.

Below is a summary of PSSSL's portfolio at fair value:

	March 31, 2018	September 30, 2017
Total investments	\$221,213,574	\$99,994,314
Weighted average cost yield on income producing investments	7.6 %	7.2 %
Number of portfolio companies in PSSSL	30	18
Largest portfolio company investment	\$13,135,874	\$8,080,000
Total of five largest portfolio company investments	\$62,437,832	\$34,935,330

Below is a listing of PSSSL's individual investments as of March 31, 2018:

PennantPark Senior Secured Loan Fund I LLC
Schedule of Investments
March 31, 2018
(Unaudited)

				Basis Point				
				Spread				
				Current	Above			
Issuer Name	Maturity	Industry	Coupon	Index ⁽¹⁾	Par	Cost	Fair Value ⁽²⁾	
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—803.9%								
First Lien Secured Debt—803.9%								
Alvogen Pharma US, Inc. ⁽³⁾	04/04/2022	Healthcare and Pharmaceuticals	6.88 %	1M L+500	5,522,843	\$5,462,516	\$5,529,747	
American Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	6.94 %	3M L+525	4,987,406	4,942,249	4,912,594	
Anvil International, LLC	08/01/2024	Construction and Building	6.29 %	2M L+450	4,975,000	4,927,486	5,018,531	
API Technologies Corp.	04/22/2022	Aerospace and Defense	8.23 %	3M L+650	4,892,947	4,850,313	4,917,412	
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	9.11 %	3M L+725	10,837,152	10,587,854	10,837,152	
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.33 %	3M L+650	6,483,750	6,423,327	6,491,475	
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.63 %	1M L+575	7,462,217	7,416,826	7,499,528	
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	7.30 %	3M L+500	4,750,395	4,750,395	4,558,778	
DBI Holdings, LLC	08/02/2021	Business Services	7.13 %	1M L+525	12,500,000	12,380,173	12,500,000	
DigiCert Holdings, Inc.	10/31/2024	High Tech Industries	6.52 %	3M L+475	8,000,000	7,962,812	8,085,040	
Digital Room Holdings, Inc.	12/29/2023	Media: Advertising,	6.88 %	1M L+500	9,975,000	9,876,442	9,900,188	

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

		Printing and Publishing						
DISA Global Solutions, Inc.	12/09/2020	Business Services	5.91	%	1M L+425	4,744,586	4,733,745	4,720,863
Douglas Products and Packaging Company LLC	03/29/2022	Chemicals, Plastics and Rubber	8.05	%	3M L+575	12,500,000	12,281,563	12,281,250
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.42	%	1M L+475	4,875,000	4,832,032	4,875,000
IGM RFE1 B.V. (3), (4)	10/12/2021	Chemicals, Plastics and Rubber	8.00	%	3M E+800	€9,874,214	11,827,478	12,145,708
Impact Sales, LLC	12/30/2021	Wholesale	8.69	%	2M L+700	4,959,849	4,946,246	4,959,849
Infrastructure Supply Operations Pty Ltd. (3), (4)	12/12/2023	Wholesale	6.56	%	1M L+475 A	\$ 10,000,000	7,297,298	7,434,996
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	7.69	%	1M L+600	7,359,375	7,419,949	7,310,288
Manna Pro Products, LLC	12/08/2023	Consumer Goods: Non-Durable	7.71	%	1M L+600	6,982,500	6,881,903	6,915,963
Marketplace Events LLC (4)	01/27/2021	Media: Diversified and Production	6.87	%	P+275 C	\$ 6,000,000	4,614,469	4,656,936
Maytex Mills, Inc.	12/27/2023	Consumer Goods: Durable High Tech	6.32	%	1M L+450	8,977,500	8,933,457	9,033,609
McAfee, LLC	09/30/2024	Industries	6.38	%	1M L+450	7,462,500	7,392,727	7,533,991
Mission Critical Electronics, Inc.	09/28/2022	Capital Equipment	6.84	%	3M L+500	4,054,859	4,032,413	4,037,865
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	8.30	%	3M L+600	13,201,883	13,060,451	13,135,874
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	7.16	%	1M L+500	4,781,245	4,781,245	4,757,339
Sonny's Enterprises, LLC	12/01/2022	Capital Equipment	6.38	%	1M L+475	9,975,000	9,978,117	9,975,000
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	7.25	%	2M L+525	5,099,730	5,099,731	5,099,730
UBEO, LLC	04/03/2024	Capital Equipment	6.39	%	1M L+450	12,500,000	12,375,000	12,375,000
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	8.31	%	3M L+600	4,750,000	4,810,455	4,788,618
Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	10.89	%	1M L+900	4,975,000	4,882,758	4,925,250
Total First Lien Secured Debt							219,761,430	221,213,574
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies							219,761,430	221,213,574

Cash and Cash Equivalents—58.2%		
BlackRock Federal FD Institutional 30	15,545,814	15,545,814
US Bank Cash	472,756	469,777
Total Cash and Cash Equivalents	16,018,570	16,015,591
Total Investments and Cash Equivalents—862.1%	\$235,780,000	\$237,229,165
Liabilities in Excess of Other Assets—(762.1)%		(209,710,489)
Members' Equity—100.0%		\$27,518,676

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, EURIBOR or Prime rate. The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 60-day, 90-day or 180-day LIBOR rate (1M L, 2M L, 3M L, or 6M L, respectively), and EURIBOR loans are typically indexed to a 90-day EURIBOR rate (3M E), at the borrower's option. 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 PSSSL's accounting policy.
- (3) Non-U.S. company or principal place of business outside the United States.
- (4) Par amount is denominated in Australian Dollars (A\$), Canadian Dollars (C\$) or in Euros (€) as denoted.

Below is a listing of PSSSL's individual investments as of September 30, 2017:

PennantPark Senior Secured Loan Fund I LLC
Schedule of Investments
September 30, 2017

				Basis Point				
				Spread				
				Current	Above			
Issuer Name	Maturity	Industry	Coupon	Index ⁽¹⁾	Par	Cost	Fair Value ⁽²⁾	
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—651.7%								
First Lien Secured Debt—674.2%								
Alvogen Pharma US, Inc. ⁽³⁾	04/04/2022	Healthcare and Pharmaceuticals	6.24	%	L+500	5,664,954	\$5,597,299	\$5,636,629
Anvil International, LLC	08/01/2024	Construction and Building	5.50	%	L+450	5,000,000	4,950,000	5,025,000
API Technologies Corp.	04/22/2022	Aerospace and Defense	7.83	%	L+650	4,955,919	4,908,646	4,906,360
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	8.57	%	L+725	5,961,702	5,819,267	5,961,702
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.08	%	L+575	7,500,000	7,453,125	7,425,000
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	6.24	%	L+500	4,875,132	4,875,132	4,807,559
DigiCert Holdings, Inc.	10/31/2024	High Tech Industries	5.75	%	L+475	8,000,000	7,960,000	8,080,000
DISA Global Solutions, Inc.	12/09/2020	Business Services	5.55	%	L+425	4,744,586	4,732,725	4,720,863
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.06	%	L+475	5,000,000	4,951,225	5,000,000
IGM RFE1 B.V. ^{(3), (4)}	10/12/2021	Chemicals, Plastics and Rubber	8.00	%	E+800	€4,937,107	5,742,092	5,836,653
		Wholesale						
Impact Sales, LLC	12/30/2021		8.30	%	L+700	4,984,962	4,970,404	4,984,963
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	7.24	%	L+600	7,453,125	7,521,186	7,468,628
	09/28/2022		6.33	%	L+500	4,075,442	4,050,930	4,058,871

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

Mission Critical Electronics, Inc.		Capital Equipment					
		Consumer Goods:		L+600			
Morphe, LLC	02/10/2023	Non-Durable	7.33	%	4,875,000	4,810,511	4,801,875
		Media:		L+918			
One Sixty Over Ninety, LLC	03/03/2022	Advertising, Printing and Publishing	10.52	%	6,000,000	5,885,356	6,000,000
		Beverage, Food and Tobacco		L+500			
Snak Club, LLC	07/19/2021		6.24	%	4,843,745	4,843,745	4,843,745
		Media:		L+525			
The Infosoft Group, LLC	12/02/2021	Broadcasting and Subscription	6.58	%	5,530,997	5,530,997	5,530,997
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	7.34	%	4,875,000	4,942,263	4,905,469
Total First Lien Secured Debt						99,544,903	99,994,314
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						99,544,903	99,994,314
Cash and Cash Equivalents—15.5%							
BlackRock Federal FD Institutional 30						2,226,430	2,226,430
US Bank Cash						144,739	144,833
Total Cash and Cash Equivalents						2,371,169	2,371,263
Total Investments and Cash						\$ 101,916,072	\$ 102,365,577
Equivalents—667.2%							
Liabilities in Excess of Other Assets—(567.2)%							(87,022,556)
Members' Equity—100.0%							\$ 15,343,021

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, EURIBOR or Prime rate. 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 PSSSL's accounting policy.

(3) Non-U.S. company or principal place of business outside the United States.

(4) Par amount is denominated in Euros (€) as denoted.

Below is the financial information for PSSSL:

PennantPark Senior Secured Loan Fund I LLC
Statements of Assets and Liabilities

	March 31, 2018 (Unaudited)	September 30, 2017
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$219,761,430 and \$99,544,903, respectively)	\$ 221,213,574	\$ 99,994,314
Cash and cash equivalents (cost—\$16,018,750 and \$2,371,169, respectively)	16,015,591	2,371,263
Interest receivable	850,178	332,980
Prepaid expenses and other assets	1,779,945	1,131,029
Total assets	239,859,288	103,829,586
Liabilities		
Payable for investments purchased	12,375,000	27,095,850
PSSSL Credit Facility payable	138,580,413	26,783,885
Notes payable	60,800,000	34,400,000
Interest payable on PSSSL Credit Facility	465,810	97,531
Interest payable on notes	29,751	12,107
Accrued other expenses	89,638	97,192
Total liabilities	212,340,612	88,486,565
Commitments and contingencies ⁽¹⁾	—	—
Members' equity	27,518,676	15,343,021
Total liabilities and members' equity	\$ 239,859,288	\$ 103,829,586

⁽¹⁾ PSSSL had no unfunded commitments as of March 31, 2018 and September 30, 2017.

PennantPark Senior Secured Loan Fund I LLC
 Statements of Operations
 (Unaudited)

	Three Months Ended March 31, 2018	Six Months Ended March 31, 2018
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$3,123,487	\$5,097,142
Other income	12,219	12,219
Total investment income	3,135,706	5,109,361
Expenses:		
Interest and expenses on PSSSL Credit Facility	1,306,299	1,957,836
Interest expense on notes	1,026,403	1,638,700
Administrative services expenses	75,000	150,000
Other general and administrative expenses ⁽¹⁾	113,650	465,436
Total expenses	2,521,352	4,211,972
Net investment income	614,354	897,389
Realized and unrealized gain on investments and credit facility foreign currency translations		
Net realized gain on investments	65,122	15,946
Net change in unrealized appreciation on:		
Non-controlled, non-affiliated investments	545,340	999,702
Credit facility foreign currency translations	72,620	(251,668)
Net change in unrealized appreciation on investments and credit facility foreign currency translations	617,960	748,034
Net realized and unrealized gain from investments and credit facility foreign currency translations	683,082	763,980
Net increase in members' equity resulting from operations	\$1,297,436	\$1,661,369

⁽¹⁾Currently, no management or incentive fees are payable by PSSSL. If any fees were to be charged, they would be separately disclosed on the Statements of Operations.

Contractual Obligations

A summary of our significant contractual payment obligations at cost as of March 31, 2018, including borrowings under our Credit Facility, 2023 Notes 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	\$191.5	\$—	\$—	\$191.5	\$—
2023 Notes	131.9	—	—	—	131.9
Total debt outstanding ⁽¹⁾	\$323.4	\$—	\$—	\$191.5	\$131.9
Unfunded commitments to PSSSL	15.9	—	—	—	15.9
Unfunded investments ⁽²⁾	48.2	0.3	2.9	37.2	7.8
Total contractual obligations	\$387.5	\$0.3	\$2.9	\$228.7	\$155.6

⁽¹⁾The annualized weighted average cost of debt as of March 31, 2018, excluding amendment costs and debt issuance costs, was 3.79% exclusive of the fee on the undrawn commitment on the Credit Facility.

⁽²⁾Unfunded debt and equity investments are disclosed in the Consolidated Schedule of Investments and Note 11 of our Consolidated Financial Statements.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently 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 2018, 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 average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2018, the Administrator furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide significant 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

In May 2018 we doubled the financial capacity of PSSSL. We and Kemper each increased our respective debt and equity investments in PSSSL while continuing to own 87.5% and 12.5%, respectively, of each of the outstanding first lien secured debt and equity interests. Our commitments to fund first lien secured debt to PSSSL were increased by \$64.3 million and our commitments to fund equity interests in PSSSL were increased by \$27.6 million. Additionally, the PSSSL Credit Facility was amended to, among other things, allow PSSSL Subsidiary to borrow up to \$420.0 million at any one time outstanding, subject to leverage and borrowing base restrictions.

Through April 30, 2018, we have made investments totaling \$62.8 million and PSSSL has made investments totaling \$43.0 million (of which \$12.4 million was purchased from the Company).

On April 5, 2018, our board of directors approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the Small Business Credit Availability Act). As a result, the asset coverage requirements applicable to us for senior securities will be reduced from 200% to 150%, effective as of April 5, 2019, subject to compliance with certain disclosure requirements. As of March 31, 2018 and September 30, 2017, our asset coverage ratio, as computed in accordance with the 1940 Act, was 268% and 278%, respectively.

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 treated as a RIC for federal income tax purposes and to not be subject to corporate-level tax on our undistributed income or gains, we are required, under Subchapter M of the Code, to annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of our investment company taxable income, determined without regard to any

deduction for dividends paid.

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 for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary 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 did not incur any 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 continue to retain such net capital gains or investment company taxable income, subject to our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

During the three and six months ended March 31, 2018, we declared distributions of \$0.285 and \$0.570 per share, respectively, for total distributions of \$11.0 million and \$21.5 million, respectively. For the same periods in the prior year, we declared distributions of \$0.285 and \$0.570 per share, respectively, for total distributions of \$8.7 million and \$16.3 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes 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, 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 subject to information reporting 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.

On November 22, 2017, we terminated our dividend reinvestment plan. The termination of the plan applies to the reinvestment of cash distributions paid on or after December 22, 2017.

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 ratio 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 our ability to be subject to tax as a RIC. We cannot assure stockholders that they will receive any distributions at a particular level.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. An amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017. Public business entities are permitted to apply the new guidance early, but not before the original effective date (i.e., interim periods within annual periods beginning after December 15, 2016). The Company has evaluated this guidance and determined it will have no material impact on its financial statements.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of March 31, 2018, our debt portfolio consisted of 100% variable-rate investments (including 5% where LIBOR was below the floor) and 0% 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 Income,	Change In Interest Income,
	Net of Interest Expense	Net of Interest Expense
	(in thousands)	Per Share
Change In Interest Rates		
Down 1%	\$ (5,847)	\$ (0.15)
Up 1%	\$ 5,847	\$ 0.15
Up 2%	\$ 11,948	\$ 0.31
Up 3%	\$ 18,106	\$ 0.47
Up 4%	\$ 24,264	\$ 0.63

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 or investments denominated in foreign currencies. During the periods covered by this Report, we did not engage in interest rate hedging activities or foreign currency derivatives 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) under 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 March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None of us, our Investment Adviser or 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 Administrator, may be a party to certain legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these and any future 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.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should consider carefully the factors discussed below, as well as in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017 filed on November 30, 2017 and in “Risk Factors” in Post-Effective Amendment No. 3 to the Registration Statement on Form N-2 filed on December 13, 2017, which could materially affect our business, financial condition and/or operating results. The risks described below, as well as in our Annual Report on Form 10-K and Registration Statement on Form N-2 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.

Recently passed legislation may allow us to incur additional leverage.

A BDC has historically been able to issue “senior securities,” including borrowing money from banks or other financial institutions, only in amounts such that its asset coverage, as defined in the 1940 Act, equals at least 200% after such incurrence or issuance. In March 2018, the Small Business Credit Availability Act was signed into law and amended the 1940 Act to decrease this percentage from 200% to 150% for a BDC that has received either stockholder approval or approval of a “required majority” (as defined in Section 57(o) of the 1940 Act) of its board of directors of the application of such lower asset coverage ratio to the BDC. Since on April 5, 2018 our Board has approved such reduction, if we comply with the applicable disclosure requirements, we will be able to incur additional indebtedness on April 5, 2019, which may increase the risk of investing in us. In addition, since our base management fee is payable based upon our average adjusted gross assets, which includes any borrowings for investment purposes, our base management fee expenses may increase if we incur additional leverage.

Because we intend to distribute substantially all of our income to our stockholders to maintain our ability to be subject to tax as a RIC, we will need to raise additional capital to finance our growth. If funds are not available to us, we may need to curtail new investments, and our common stock value could decline.

In order to satisfy the requirements to be treated as a RIC for federal income tax purposes, we intend to distribute to our stockholders substantially all of our investment company taxable income and net capital gains each taxable year.

However, we may retain all or a portion of our net capital gains and pay applicable income taxes with respect thereto and elect to treat such retained net capital gains as deemed dividend distributions to our stockholders.

As a BDC, we are required to meet a 200% asset coverage ratio through April 4, 2019 and 150% thereafter, subject to certain disclosure requirements of total assets to total senior securities, which includes all of our borrowings, and any preferred stock we may issue in the future. This requirement limits the amount we may borrow. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments or sell additional common stock and, depending on the nature of our leverage, to repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous. In addition, the issuance of additional securities could dilute the percentage ownership of our current stockholders in us.

We are partially dependent on our subsidiary Funding I for cash distributions to enable us to meet the RIC distribution requirements. Funding I may be limited by its covenants from making certain distributions to us that may be necessary to fulfill our requirements to be treated as a RIC for federal income tax purposes. We may have to request a waiver of these covenants' restrictions for Funding I to make certain distributions to enable us to be subject to tax as a RIC. We cannot assure you that Funding I will be granted such a waiver, and if Funding I is unable to obtain a waiver, compliance with the covenants may cause us to incur a corporate-level income tax.

If we incur additional debt, it could increase the risk of investing in our shares.

We have indebtedness outstanding pursuant to our Credit Facility and the 2023 Notes and expect in the future to borrow additional amounts under our Credit Facility or other debt securities, subject to market availability, and, may increase the size of our Credit Facility. We cannot assure you that our leverage will remain at current levels. The amount of leverage that we employ will depend upon our assessment of the market and other factors at the time of any proposed borrowing. Lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or preferred stockholders, if any, and we have granted a security interest in Funding I's assets in connection with our Credit Facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. Any future debt issuance will increase our leverage and may be subordinate to our Credit Facility. In addition, borrowings or debt issuances, also known as leverage, magnify the potential for loss or gain on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets decreases, then leveraging would cause the NAV attributable to our common stock to decline more than it otherwise would have had we not utilized leverage. Similarly, any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common or preferred stock. Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures.

Through April 4, 2019, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, through such date we may not be permitted to declare any cash distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. If this ratio declines below 200% before April 5, 2019, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. The Small Business Credit Availability Act, which was signed into law in March 2018, modifies this section of the 1940 Act and decreases this percentage from 200% to 150% (subject to either stockholder approval or approval of both a majority of the board of directors and a majority of directors who are not interested persons). On April 5, 2018, our board of directors approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the Small

Business Credit Availability Act). As a result, the asset coverage requirements applicable to us for senior securities will be reduced from 200% to 150%, effective as of April 5, 2019, subject to compliance with certain disclosure requirements. As of such date, we will be able to incur additional indebtedness as a result of this new law and therefore, your risk of an investment in us may increase.

As of March 31, 2018 and September 30, 2017, our asset coverage ratio, as computed in accordance with the 1940 Act, was 268% and 278%, respectively.

Since our leverage was 60% and 56% of our net assets as of March 31, 2018 and September 30, 2017, respectively, we would have to receive an annual return of at least 1.44% and 1.13%, respectively, to cover annual interest payments.

As of March 31, 2018, we had outstanding borrowings of \$190.2 million under our Credit Facility and \$138.6 million outstanding under our 2023 Notes. Our consolidated debt outstanding was \$328.8 million and had a weighted average annual interest rate at the time of 3.81%, exclusive of the fees on the undrawn commitment on our Credit Facility. To cover the annual interest on our borrowings of \$328.8 million outstanding as of March 31, 2018, at the weighted average annual rate of 3.81%, we would have to receive an annual yield of at least 1.44%. This example is for illustrative purposes only, and actual interest rates on our Credit Facility or any future borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee or incentive fee payable to our Investment Adviser, are and will be borne by our common stockholders.

The following table is designed to illustrate the effect on the return to a holder of our common stock of the leverage created by our use of borrowing as of March 31, 2018 of 36% of total assets (including such borrowed funds), at the current interest rate at the time of 3.81%, and assumes hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level of leverage and weighted average interest rate. The amount of leverage and cost of borrowing that we use will vary from time to time. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses) ⁽¹⁾	(10.0)%	(5.0)%	— %	5.0%	10.0%
Corresponding return to common stockholders ⁽²⁾	(18.7)%	(10.5)%	(2.3)%	5.9%	14.1 %

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.

(2) In order to compute the “corresponding return to common stockholders,” the “assumed return on portfolio” is multiplied by the total value of our assets at the beginning of the period to obtain an assumed return to us. From this amount, all interest expense expected to be accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of the beginning of the period to determine the “corresponding return to common stockholders.”

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.

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 Exhibit 99(A) 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 Exhibit 99(D) 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).
- 10.1 First Amendment to Purchase and Contribution Agreement, dated as of January 16, 2018, between PennantPark Floating Rate Capital Ltd., as the seller, and PennantPark Floating Rate Funding I, LLC, as the buyer (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 814-00891), filed on February 8, 2018).
- 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 Exhibit 99.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00891), filed on November 17, 2011).

*Filed herewith.

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: May 10, 2018 By: /s/ Arthur H. Penn
Arthur H. Penn
Chief Executive Officer and Chairman of the Board of Directors

(Principal Executive Officer)

Date: May 10, 2018 By: /s/ Aviv Efrat
Aviv Efrat
Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)