

PennantPark Floating Rate Capital Ltd.

Form 497

March 20, 2013

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Filed Pursuant to Rule 497
File No. 333-180084

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, March 20, 2013

Preliminary Prospectus Supplement

To the Prospectus dated July 26, 2012

3,000,000 Shares

Common Stock

We are offering for sale 3,000,000 shares of our common stock. Our common stock is traded on the NASDAQ Global Select Market under the symbol PFLT. The last reported closing price for our common stock on March 19, 2013 was \$14.23 per share. The net asset value of our common stock on December 31, 2012 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$13.99 per share.

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 business development company, or a BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act. Our investment objectives are to generate current income and capital appreciation by investing primarily in Floating Rate Loans, and other investments, made to U.S. middle-market private companies. Floating Rate Loans, or variable-rate investments, pay interest at variable-rates, which are determined periodically, on the basis of a floating base lending rate such as the London Interbank Offered Rate, or LIBOR, with or without a floor plus a fixed spread over it. We are externally managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read them before you invest in our securities and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. You may also obtain such information free of charge or make stockholder inquiries by contacting us in writing at 590 Madison Avenue, New York, NY 10022, by calling us collect at (212) 905-1000 or by visiting our website at www.pennantpark.com. The information on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus. The SEC also maintains a website at www.sec.gov that contains such information free of charge.

Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any shares of our common stock, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page S-12 of this prospectus supplement and page 8 of the accompanying prospectus.

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Neither the SEC nor any state securities commission, nor any other regulatory body, has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions (sales load) ⁽¹⁾	\$	\$
Proceeds to PennantPark Floating Rate Capital, Ltd (before estimated expenses of \$400,000)	\$	\$

(1) Our investment adviser, PennantPark Investment Advisers, LLC, has agreed to pay the underwriters \$ million, or \$ per share of the sales load in connection with this offering, which is not reflected in the above table. All other expenses of the offering including the sales load not paid by our investment adviser will be borne by us.

The underwriters may also purchase up to an additional 450,000 shares from us at the public offering price, within 30 days from the date of this prospectus supplement to cover overallocments, if any. If the underwriters exercise this option in full, the total public offering price will be \$, the underwriting discount and commissions (sales load) that will be paid by us will be \$ million and the underwriting discount and commission paid by PennantPark Investment Advisers, LLC will be \$ million and total proceeds, before expenses, will be \$.

The underwriters expect to deliver the shares on or about March , 2013.

Morgan Stanley

J.P. Morgan

Keefe, Bruyette & Woods

A Stifel Company

The date of this prospectus supplement is March , 2013.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus when considering whether to purchase any securities offered by this prospectus. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell, and seeking offers to buy, securities only in jurisdictions where offers are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement and the accompanying prospectus. Our business, financial condition, results of operations and prospects may have changed since then. We will update these documents to reflect material changes only as required by law.

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SUPPLEMENTAL PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider in making an investment decision. References to our portfolio and investments include investments we make through our consolidated subsidiary. Some of the statements in this prospectus supplement and the accompanying prospectus constitute forward-looking statements, which apply to both us and any consolidated subsidiaries and relate to future events, future performance or future financial condition. The forward-looking statements involve risks and uncertainties on a consolidated basis and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in this prospectus supplement and the accompanying prospectus. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus supplement and the accompanying prospectus. In this prospectus supplement and the accompanying prospectus except where the context suggests otherwise: the terms we, us, our, and Company refer to PennantPark Floating Rate Capital Ltd. and its consolidated subsidiary; Funding I or our subsidiary refers to our consolidated subsidiary, PennantPark Floating Rate Funding I, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; and PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC.

General Business of PennantPark Floating Rate Capital Ltd.

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate current income and capital appreciation. We seek to achieve our investment objective by investing primarily in Floating Rate Loans, and other instruments, made to U.S. middle-market private companies.

We believe that Floating Rate Loans to U.S. middle-market private companies offer attractive risk-adjusted returns 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. We may also invest in public middle-market U.S. companies that are thinly traded or have a small market-capitalization. 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 investments may have terms of 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, which means our net assets plus any borrowings for investments purposes, will be invested in Floating Rate Loans and other investments bearing a variable-rate of interest which may, from time to time, include variable rate derivative instruments. We generally expect that senior secured loans, or first lien loans, will represent at least 65% of our overall portfolio. We also generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second-lien, high yield, mezzanine and distressed debt securities and to a lesser extent equity investments. Our investment size may generally range between \$1 million and \$10 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

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economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our credit facility, or the Credit Facility, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Floating Rate Capital Ltd.

PennantPark Floating Rate Capital Ltd., a Maryland corporation organized in October 2010, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for tax purposes we elected to be treated, and intend to qualify annually, as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code.

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing what we believe is an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history have resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser's inception in 2007, it has raised over \$1.5 billion in debt and equity capital and has invested over \$2.1 billion in over 200 companies with over 100 different financial sponsors through its managed funds.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC. The Administrator assists in the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See **Risk Factors** **Risks Relating to our Business and Structure** There are significant potential conflicts of interest which could impact our investment returns in the accompanying prospectus for more information.

Market Opportunity

We believe that the limited amount of capital available to the middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us.

We believe middle-market companies have faced increasing difficulty in raising debt through the capital markets. While many middle-market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult as institutional investors have sought to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield debt securities.

We believe middle-market companies have faced difficulty raising debt in private markets. Banks, finance companies, hedge funds and collateralized loan obligation, or CLO, funds have withdrawn capital from the middle-market resulting in opportunities for alternative funding sources.

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We believe that the current credit market dislocation for middle-market companies improves the risk-adjusted returns of our investments. In the current credit environment, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, we believe there is less competition in our market, more conservative capital structures, higher yields and stronger covenants.

We believe there is a large pool of uninvested private equity capital likely to seek to combine their capital with sources of debt capital to complete private investments. We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with senior secured loans and/or mezzanine debt provided by other sources, and we believe that our capital is well-positioned to partner with such equity investors. We expect such activity to be funded by the substantial amounts of private equity capital that have been raised in recent years.

We believe there is a substantial supply of opportunities. A high volume of financings will come due in the next few years. Additionally, we believe that demand for debt financing from middle-market companies will remain strong because these companies will continue to require credit to refinance existing debt, to support growth initiatives and to finance acquisitions. We believe the combination of strong demand by middle-market companies and the reduced supply of credit described above should increase lending opportunities for us. We believe this supply of opportunities coupled with lack of demand offers attractive risk-adjusted returns to investors.

Competitive Advantages

We believe that we have the following competitive advantages over other capital providers in middle-market companies:

a. Experienced Management Team

The senior investment professionals of our Investment Adviser have worked together for many years and average over 20 years of experience in mezzanine lending, leveraged finance, distressed debt and private equity businesses. The senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this extensive experience and history has resulted in a strong reputation across the capital markets.

Lending to middle-market companies requires in depth diligence, credit expertise, restructuring experience and active portfolio management. For example, lending to middle-market companies in the United States is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of the information available with respect to such companies. Specialized due diligence and underwriting capabilities, and more extensive ongoing monitoring are required by the lender.

b. Disciplined Investment Approach with Strong Value Orientation

We employ a disciplined approach in selecting investments that meet the long-standing, consistent value-oriented investment criteria employed by our Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We believe this approach continues to enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

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We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through our Investment Adviser, conduct a rigorous due diligence process that draws from our Investment Adviser's experience, industry expertise and network of contacts. Among other things, our due diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations. See "Investment Objectives and Policies" "Investment Selection Criteria" in the accompanying prospectus for more information.

In addition to engaging in extensive due diligence, our Investment Adviser seeks to reduce risk by focusing on businesses with:

strong competitive positions;

positive cash flow that is steady and stable;

experienced management teams with strong track records;

potential for growth and viable exit strategies; and

capital structures offering appropriate risk-adjusted terms and covenants.

c. Ability to Source and Evaluate Transactions through our Investment Adviser's Research Capability and Established Network

The management team of the Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that we believe enable us to evaluate investment opportunities effectively in numerous industries, as well as provide us access to substantial information concerning those industries. We identify potential investments both through active origination and through dialogue with numerous financial sponsors, management teams, members of the financial community and corporate partners with whom the professionals of our Investment Adviser have long-term relationships.

d. Flexible Transaction Structuring

We are flexible in structuring investments and tailor investments to meet the needs of a portfolio company while also generating attractive risk-adjusted returns. We can invest in any part of a capital structure, and our Investment Adviser has extensive experience in a wide variety of securities for leveraged companies throughout economic and market cycles.

Our Investment Adviser seeks to minimize the risk of capital loss without foregoing potential for capital appreciation. In making investment decisions, we seek to invest in companies that we believe can generate positive risk-adjusted returns.

We believe that the in-depth coverage and experience of our Investment Adviser will enable us to invest throughout various stages of the economic and market cycles and to provide us with ongoing market insights in addition to a significant investment sourcing engine.

Recent Developments

Under terms agreed among us, the Investment Adviser and underwriters of our initial public offering, the Investment Adviser paid 2% of the underwriters' sales load, or approximately \$2.1 million in the aggregate, on our behalf in connection with our initial public offering. We agreed to repay such amount to the Investment Adviser upon its achievement of a benchmark return over four consecutive quarters, and the Investment Adviser agreed to use such amount to purchase shares of our common stock over a six-month period following such repayment. We met the conditions for repayment to the Investment Adviser at the end of the quarter ended

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December 31, 2012 and subsequently repaid approximately \$2.1 million to the Investment Adviser. The Investment Adviser announced that it intends to purchase shares of our common stock in the secondary market over the applicable six-month purchase period. The Investment Adviser has since completed the required purchase of shares of our common stock in the secondary market. Certain investment professionals of the Investment Adviser purchased over \$1 million of shares of our stock in transactions completed on or prior to February 21, 2013.

On February 5, 2013, our stockholders elected four directors, including Messrs. Marshall Brozost and Samuel L. Katz, each of whom will serve as Class I directors until the 2015 annual meeting, or until his successor is duly elected and qualifies or until his earlier resignation, removal from office, death or incapacity, and Messrs. Adam K. Bernstein and Jeffrey Flug, each of whom will serve as Class II directors until the 2016 annual meeting, or until his successor is duly elected and qualifies or until his earlier resignation, removal from office, death or incapacity. Also on that date, our investment management agreement, or the Investment Management Agreement, and our administration agreement, or the Administration Agreement, were reapproved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment.

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available to middle-market companies since the downturn in the credit markets, which began in mid-2007. We believe this has resulted in a less competitive environment for making new investments.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. See **Risk Factors** **Risks Relating to our Business and Structure** We operate in a highly competitive market for investment opportunities in the accompanying prospectus for more information.

Leverage

We maintain a five-year, \$100.0 million Credit Facility, which matures in May 2017, with SunTrust Bank, or the Lender. During the Credit Facility's first three years beginning in May 2012, or the revolving period, it bears interest at LIBOR plus 225 basis points, and after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years. The Credit Facility is secured by all of the assets held by Funding I, under which we had drawn \$85.8 million outstanding with a weighted average interest rate of 2.47%, excluding the unused commitment fee of 0.375%, as of December 31, 2012. We believe that our capital resources provide us with the flexibility to take advantage of market opportunities when they arise. See **Management's Discussion and Analysis of Financial Condition and Results of Operations** **Liquidity and Capital Resources** in this prospectus supplement and in the accompanying prospectus for more information.

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Operating and Regulatory Structure

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of us. Under our investment management agreement, or the Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. See **Certain Relationships and Transactions Investment Management Agreement** in the accompanying prospectus for more information.

We have also entered into an administration agreement, or the 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. See **Certain Relationships and Transactions Administration Agreement** in the accompanying prospectus for more information.

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.

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See **Regulation** in the accompanying prospectus for more information. We have elected, and intend to qualify annually, to be treated for federal income tax purposes under the Code as a RIC. See **Additional Material U.S. Federal Income Tax Considerations** in this prospectus supplement and **Material U.S. Federal Income Tax Considerations** in the accompanying prospectus for more information.

Use of Proceeds

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce outstanding obligations under our Credit Facility, to invest in new or existing portfolio companies or for other general corporate or strategic purposes. See **Use of Proceeds** in this prospectus supplement for information regarding our outstanding borrowings as of December 31, 2012, the corresponding interest rate charged on such borrowings as of that date and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.

Dividends on Common Stock

We intend to continue to distribute monthly dividends to our common stockholders. Our monthly dividends, if any, are determined by our board of directors. See **Distributions** in the accompanying prospectus and **Price Range of Common Stock** in this prospectus supplement and in the accompanying prospectus for more information.

Dividend Reinvestment Plan

We have adopted an opt-out dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not opted out of our

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dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock rather than receiving the cash dividends. Registered stockholders must notify our transfer agent in writing if they wish to opt-out of the dividend reinvestment plan. See Dividend Reinvestment Plan in the accompanying prospectus for more information.

Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on the NASDAQ Global Select Market under the symbol PFLT. Our phone number is (212) 905-1000, and our Internet website address is www.pennantpark.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or accompanying prospectus. We file periodic reports, proxy statements and other information with the SEC. You may read and copy the materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at www.sec.gov that contains material that we file with the SEC on the EDGAR Database.

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The following table will assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The following table should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus supplement or the accompanying prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in us.

Stockholder transaction expenses (as a percentage of the offering price)	
Sales load	3.00% ⁽¹⁾
Offering expenses	0.94% ⁽²⁾
Total stockholder transaction expenses	3.94%
Estimated annual expenses (as a percentage of average net assets attributable to common shares)⁽³⁾	
Management fees	1.66% ⁽⁴⁾
Incentive fees	1.56% ⁽⁵⁾
Interest on borrowed funds	1.77% ⁽⁶⁾
Other expenses	1.96% ⁽⁷⁾
Total estimated annual expenses	6.95%⁽⁸⁾

- (1) Assumes we will pay the entire underwriting discount and commission (sales load), which is a one-time fee, of 3.00% of the offering price. Our Investment Adviser has agreed to bear a portion of this underwriting discount and commission, which is not reflected in the estimated annual expenses but is reflected in the stockholder transaction expenses and which will be determined at pricing. We are not obligated to repay the sales load paid by our Investment Adviser.
- (2) Amount reflects estimated offering expenses of approximately \$400,000 and based on the 3,000,000 shares offered in this offering at the last reported closing price of \$14.23 per share of our common stock on March 19, 2013.
- (3) Net assets attributable to common shares equals average net assets at December 31, 2012 plus the anticipated net proceeds from this offering but excluding the underwriters' overallotment option.
- (4) The contractual management fee is calculated at an annual rate of 1.00% of our average adjusted gross total assets. See "Certain Relationships and Transactions - Investment Management Agreement" in the accompanying prospectus for more information.
- (5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred and payable under our Investment Management Agreement during the three months ended December 31, 2012, annualized for a full year. Such incentive fees are based on performance, vary from year to year and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains 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 20.0% 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. As of December 31, 2012, our cumulative realized and unrealized capital gains exceeded our cumulative realized and unrealized capital losses and we accrued a capital gains incentive fee of less than \$0.1 million in accordance with U.S. generally accepted accounting principles, or GAAP. However, "Incentive fees" does not include an accrual for capital gains incentive fee for the three months ended December 31, 2012 since no capital gains incentive fee was payable under our Investment Management Agreement as of December 31, 2012. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future periods, if any, may be substantially different than the fee earned during the three months ended December 31, 2012. For more detailed information about the incentive fee, please see "Certain Relationships and Transactions - Investment Management Agreement" in the accompanying prospectus for more information.

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- (6) As of December 31, 2012, we had \$85.8 million in borrowings outstanding under our \$100.0 million Credit Facility. We may use the net proceeds of this offering to repay outstanding obligations under our Credit Facility. After completing this offering, we may continue to borrow under our Credit Facility to finance our investment objectives. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See Risk Factors Risks Relating To Our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage in the accompanying prospectus for more information.
- (7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the three

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months ended December 31, 2012, annualized for a full year. See the Consolidated Statement of Operations in our Consolidated Financial Statements in this prospectus supplement and in the accompanying prospectus for more information.

- (8) Total estimated annual expenses as a percentage of average net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total estimated annual expenses percentage would be for a company that is not leveraged. We may borrow money to leverage our net assets and increase our total assets. The SEC requires that the total estimated annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness) rather than total assets, which include assets that have been funded with borrowed money. For a presentation and calculation of total estimated annual expenses based on average total assets, see page 38 of the accompanying prospectus.

Example

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a \$1,000 hypothetical investment in common shares, assuming (1) no sales load (underwriting discounts and commissions) as explained in note 1 above and included offering expenses totaling 0.94%, (2) total net estimated annual expenses of 5.39% of average net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	\$ 63	\$ 169	\$ 274	\$ 533

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses may be greater or less than those assumed. The table above is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Assuming a 5% annual return, the incentive fee under our Investment Management Agreement would not be earned or payable and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. The example assumes that all dividends and distributions are reinvested at net asset value. Depending upon the market value of our common stock, reinvestment of dividends and distributions under our dividend reinvestment plan may occur at a price per share that differs from, and which could be lower than, net asset value. See Distributions and additional information regarding our dividend reinvestment plan in the accompanying prospectus for more information.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiary 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 prospectus supplement 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 the credit markets on our business;

the impact of investments that we expect to make;

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

our contractual arrangements and relationships with third parties;

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

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

our expected financings and investments;

the adequacy of our cash resources and working capital;

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

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

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

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 reliance on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in the accompanying prospectus entitled Risk Factors

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and elsewhere in this prospectus supplement.

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 prospectus supplement 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 prospectus supplement on information available to us on the date of this prospectus supplement, 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 prospectus supplement, 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 in the future that we may file with the SEC including annual and quarterly reports on Form 10-K/Q and current reports on Form 8-K.

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You should understand that, under Section 27A(b)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, do not apply to statements made in connection with any offering of securities pursuant to this prospectus supplement or in periodic reports we file under the Exchange Act.

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RISK FACTORS

Before you invest in our securities, you should be aware of various risks, including those described below and in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock may decline, and you may lose all or part of your investment.

Global capital markets could enter a period of severe disruption and instability. These market conditions have historically and could again have a materially and adversely affect on debt and equity capital markets in the United States, which could have a materially negative impact on our business, financial condition and results of operations.

The U.S. capital markets have experienced a period of disruption characterized by the freezing of credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. During this period of disruption, general economic conditions deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole, and financial services firms in particular, was reduced significantly. These conditions may reoccur for a prolonged period of time again or materially worsen in the future, including as a result of the U.S. government spending cuts that took effect March 1, 2013. We may in the future have difficulty accessing debt and equity capital, and a severe disruption and instability in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of 3,000,000 shares of our common stock in this offering will be approximately \$42.3 million (or approximately \$48.7 million if the underwriters fully exercise their over-allotment option), in each case based on a public offering price of \$14.23 per share, which was the last reported closing price of our common stock on March 19, 2013, excluding the underwriting discounts and commissions of approximately \$ million (or approximately \$ million if the underwriters fully exercise their over-allotment option) payable by us, but including estimated offering expenses of approximately \$400,000 payable by us. The Investment Adviser has agreed to bear \$ million of underwriting discounts and commissions in connection with this offering (or approximately \$ million if the underwriters fully exercise their over-allotment option). The amount of net proceeds may be more or less than the amount described in this prospectus supplement depending on the public offering price of the common stock and the actual number of shares of common stock we sell in the offering, both of which will be determined at pricing.

We may use the net proceeds from selling securities pursuant to this prospectus supplement to reduce outstanding obligations under our Credit Facility, to invest in new or existing portfolio companies or for other general corporate or strategic purposes. Affiliates of certain of the underwriters serve as lenders under our Credit Facility and thereby may receive proceeds from this offering that are used to reduce our outstanding obligations under our Credit Facility.

As of December 31, 2012, we had \$85.8 million in borrowings outstanding under our \$100.0 million Credit Facility. Borrowings under our Credit Facility bear interest at an annual rate equal to LIBOR plus 225 basis points per annum during the revolving period, and the rate resets to LIBOR plus 425 basis points per annum for the remaining two years. At December 31, 2012, we had a weighted average interest rate on our Credit Facility at the time of 2.47%, excluding the 0.375% undrawn commitment fee. The Credit Facility is a revolving facility that matures in May 2017 and is secured by all of the assets held by Funding I. Amounts repaid under our Credit Facility remain available for future borrowings during the revolving period. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this prospectus supplement and the accompanying prospectus for more information.

We may invest the net proceeds from selling securities pursuant to this prospectus supplement in new or existing portfolio companies, and such investments may take up to a year from the closing of this offering, in part because privately negotiated investments in illiquid securities or private middle-market companies require substantial due diligence and structuring. During this period, we may use the net proceeds from this offering to reduce then-outstanding obligations under our Credit Facility, which may dilute our net asset value per share, or to invest such proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to earn yields on such investments, if any, that are lower than the interest income that we anticipate receiving in respect of investments in non-temporary investments. As a result, any distributions we make during this investment period may be lower than the distributions that we would expect to pay when such proceeds are fully invested in non-temporary investments. The management fee payable by us will not be reduced while our assets are invested in any such securities. See Regulation Temporary Investments in the accompanying prospectus for more information.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash and capitalization on December 31, 2012 (1) on an actual basis and (2) on an as-adjusted basis to reflect the effects of the sale of 3,000,000 shares of our common stock in this offering at an offering price of \$14.23 per share, which was the last reported closing price of our common stock on March 19, 2013, excluding the estimated underwriting discounts and commissions of approximately \$ million, which is 3% of the offering price, but including estimated offering expenses of \$400,000. The as-adjusted information is illustrative only; our capitalization following the completion of this offering is subject to further adjustments. You should read this table together with Use of Proceeds set forth in this prospectus supplement and in the accompanying prospectus. You should also read this table with our Consolidated Financial Statements and related notes thereto, in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and in the accompanying prospectus for more information.

	As of December 31, 2012	
	(unaudited)	
	Actual	As adjusted for the offering ⁽¹⁾
Cash equivalents	\$ 3,987,645	\$ 46,277,645
Total assets	186,128,979	228,418,979
Borrowings under the Credit Facility (cost \$85,775,000)	85,775,000	85,775,000
Stockholders' Equity		
Common stock, 6,850,667 and 9,850,667 shares, as-adjusted, are issued and outstanding, respectively. Par value is \$0.001 per share and 100,000,000 shares are authorized	6,851	9,851
Paid in capital in excess of par value	95,192,222	137,479,222
Distributions in excess net investment income	(949,667)	(949,667)
Accumulated net realized gain on investments	1,666,756	1,666,756
Net unrealized depreciation on investments	(102,394)	(102,394)
Net unrealized depreciation on Credit Facility		
Total stockholders' equity	95,813,768	138,103,768
Total capitalization	\$ 181,588,768	\$ 223,878,768

(1) Does not include the underwriters' overallotment option.

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Our common stock is traded on the NASDAQ Global Select Market under the symbol PFLT. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and monthly dividends per share since April 8, 2011 (initial public offering). On March 19, 2013, the last reported closing price of our common stock was \$14.23 per share.

Period	NAV ⁽¹⁾	Closing Sales Price		Premium/ (Discount) of High Sales	Premium/ (Discount) of Low Sales	Dividends Declared
		High	Low	Price to NAV ⁽²⁾	Price to NAV ⁽²⁾	
Fiscal year ending September 30, 2013						
Second quarter (through March 19, 2013)	\$ N/A	\$ 14.43	\$ 12.94	N/A%	N/A%	\$ 0.2550 ⁽³⁾
First quarter	13.99	13.30	12.35	(5)	(12)	0.2475
Fiscal year ended September 30, 2012						
Fourth quarter	13.98	13.03	11.85	(7)	(15)	0.2400
Third quarter	13.94	11.93	11.46	(14)	(18)	0.2350
Second quarter	14.12	12.10	10.52	(14)	(25)	0.2250
First quarter	13.68	11.03	10.01	(19)	(27)	0.2100
Fiscal year ended September 30, 2011						
Fourth quarter	13.44	12.85	10.34	(4)	(23)	0.2000
Third quarter*	14.06	13.70	12.27	(3)	(13)	0.0500

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period. See "Determination of Net Asset Value" in the accompanying prospectus for more information.

(2) Calculated as of the respective high or low closing sales price divided by the quarter-end NAV.

(3) Includes a dividend of \$0.0875 per share payable April 1, 2013 to shareholders of record March 22, 2013. Shares purchased in this offering will not be entitled to the dividends to be paid April 1, 2013.

* From April 8, 2011 (initial public offering) to June 30, 2011.

Shares of BDCs may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have traded below our NAV. Our shares traded on the NASDAQ Global Select Market at \$12.70 and \$12.67 as of December 31, 2012 and September 30, 2012, respectively. Our NAV was \$13.99 and \$13.98 per share, as of December 31, 2012 and September 30, 2012, respectively. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

Table of Contents**SELECTED FINANCIAL DATA**

We have derived the financial information below from our audited and unaudited financial data and, in the opinion of management, such information reflects all adjustments (consisting of normal recurring adjustments) that are necessary to present fairly the results of such periods. The Consolidated Statement of Operations data, Per share data and Consolidated Statement of Assets and Liabilities data for the fiscal year ended September 30, 2012, and for the period from March 4, 2011 (commencement of operation) to September 30, 2011 are derived from our Consolidated Financial Statements which have been audited by KPMG LLP, an independent registered public accounting firm. These selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and in the accompanying prospectus. Interim results as of and for the three months ended December 31, 2012, are not necessarily indicative of the results that may be expected for the year ending September 30, 2013. The unaudited selected financial data for the three months ended December 31, 2012 and 2011, should be read in conjunction with our consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement.

	Three Months Ended December 31,		Year ended September 30,	For the period March 4, 2011 (commencement of operations) to September 30, 2011
	2012 ⁽¹⁾	2011 ⁽¹⁾	2012	
(Dollar amounts in thousands, except per share data)				
Consolidated Statement of operations data:				
Total investment income	\$ 3,963	\$ 2,467	\$ 12,099	\$ 2,947
Total expenses after Credit Facility debt issuance and excise taxes	1,904	1,092	5,789	2,626 ⁽⁵⁾
Net investment income	2,059	1,375	6,310	320
Net realized and unrealized (loss) gain	(294)	1,730	5,651	(3,793)
Net increase (decrease) in net assets resulting from operations	1,765	3,105	11,961	(3,473)
Per share data:				
Net asset value (at period end)	13.99	13.68	13.98	13.44
Net investment income ⁽²⁾	0.30	0.20	0.92	0.05
Net realized and unrealized (loss) gain ⁽²⁾	(0.04)	0.25	0.83	(0.56)
Net increase (decrease) in net assets resulting from operations ⁽²⁾	0.26	0.45	1.75	(0.51)
Distributions declared ^{(2),(3)}	0.25	0.21	0.91	0.25
Statement of Assets and Liabilities data (at period end):				
Total assets	186,129	142,841	178,367	121,075
Total investment portfolio	180,796	129,328	171,834	110,724
Credit Facility payable, at fair value	85,775	34,749	75,123	24,650
Payable for investments purchased and unfunded investments		12,927	3,358	3,313
Total net asset value	95,814	93,739	95,744	92,072
Other data:				
Total return* ⁽⁴⁾	2.15%	(0.45)%	29.43%	(28.13)%
Number of portfolio companies (at period end) ⁽¹⁾	64	45	61	38
Yield on debt portfolio (at period end) ⁽¹⁾	8.9%	8.3%	8.6%	8.0%

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* Not annualized for a period of less than a year.

(1) Unaudited.

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

(3) Determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under GAAP.

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

(5) Included start-up and organizational costs.

Selected Quarterly Data (Unaudited)

(dollar amounts in thousands, except per share data)

	2013 Q1
Total investment income	\$ 3,963
Net investment income	\$ 2,059
Net realized and unrealized (loss)	\$ (294)
Net increase in net assets resulting from operations	\$ 1,765
Net increase in net assets resulting from operations per common share	\$ 0.26
Net asset value per share at the end of the quarter	\$ 13.99
Market value per share at the end of the quarter	\$ 12.70

	2012			
	Q4	Q3	Q2	Q1
Total investment income	\$ 3,487	\$ 3,201	\$ 2,944	\$ 2,467
Net investment income	\$ 1,544	\$ 1,846	\$ 1,545	\$ 1,375
Net realized and unrealized gain (loss)	\$ 2,400	\$ (1,459)	\$ 2,980	\$ 1,730
Net increase in net assets resulting from operations	\$ 3,944	\$ 387	\$ 4,525	\$ 3,105
Net increase in net assets resulting from operations per common share	\$ 0.58	\$ 0.06	\$ 0.66	\$ 0.45
Net asset value per share at the end of the quarter	\$ 13.98	\$ 13.94	\$ 14.12	\$ 13.68
Market value per share at the end of the quarter	\$ 12.67	\$ 11.90	\$ 11.75	\$ 10.30

	2011	
	Q4	Q3*
Total investment income	\$ 2,048	\$ 899
Net investment income (loss)	\$ 1,203	\$ (883)
Net realized and unrealized (loss) gain	\$ (4,012)	\$ 219
Net decrease increase in net assets resulting from operations	\$ (2,809)	\$ (664)
Net decrease in net assets resulting from operations per common share	\$ (0.41)	\$ (0.10)
Net asset value per share at the end of the quarter	\$ 13.44	\$ 14.06
Market value per share at the end of the quarter	\$ 10.55	\$ 12.69

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* For the period March 4, 2011 (commencement of operations) to June 30, 2011.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Overview

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate current income and capital appreciation. We seek to achieve our investment objective by investing primarily in Floating Rate Loans, and other instruments, made to U.S. middle-market private companies whose debt is rated below investment grade. Floating Rate Loans or variable-rate investments are loans that typically pay interest at variable rates, which are determined periodically, on the basis of a floating base lending rate such as LIBOR, plus a fixed spread over it.

We believe that Floating Rate Loans to U.S. middle-market private companies offer attractive risk-adjusted returns 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. We may also invest in public middle-market U.S. companies that are thinly traded or have a small market-capitalization. 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 investments may have terms of 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 which may, from time to time, include variable rate derivative instruments. We generally expect that senior secured loans, or first lien loans, will represent at least 65% of our overall portfolio. We also generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second-lien, high yield, mezzanine and distressed debt securities and to a lesser extent equity investments. Our investment size may generally range between \$1 million and \$10 million, on average, although we expect that this investment size will vary proportionately with the size of our capital base.

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

Organization and Structure of PennantPark Floating Rate Capital Ltd.

PennantPark Floating Rate Capital Ltd., a Maryland corporation organized in October 2010, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in "qualifying assets", including securities of U.S. private companies or thinly traded public companies, public companies with a market capitalization of less than \$250 million, cash, cash equivalents, U.S. government securities and high quality debt investments that mature in one year or less. In addition, for tax purposes we elected to be treated, and intend to qualify annually as a RIC under the Code.

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 20 years of experience in the mezzanine lending, leveraged finance,

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distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history have resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser's inception in 2007, it has raised over \$1.5 billion in debt and equity capital and has invested over \$2.1 billion in over 200 companies with over 100 different financial sponsors through its managed funds.

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, or 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, and the Investment Adviser supervise our activities.

Revenues

We generate revenue in the form of interest income on the debt securities we hold. Capital gains, if any, are recorded on a trade date basis upon exiting investments. Our debt investments, whether in the form of senior secured loans or mezzanine debt, typically have a term of three to ten years and bear interest at a fixed or floating rate. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments or payment-in-kind, or PIK. 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 original issue discount, or OID, commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees.

Expenses

Our primary operating expenses include the payment of management fees to our Investment Adviser, 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 commitment fees on the unfunded debt under our Credit Facility. We bear all other direct or indirect costs and expenses of our operations and transactions, including:

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

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

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

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

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

federal, state and local taxes;

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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;

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.

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 December 31, 2012, our portfolio totaled \$180.8 million and consisted of \$157.2 million of senior secured loans, \$10.5 million of second lien secured debt and \$13.1 million of subordinated debt, preferred and common equity investments. Our debt portfolio consisted of 87% variable-rate investments (including 81% with a LIBOR or prime floor) and 13% fixed-rate investments. Overall, the portfolio had unrealized depreciation of \$0.1 million. Our overall portfolio consisted of 64 companies with an average investment size of \$2.8 million, a weighted average yield on debt investments of 8.9%, and was invested 87% in senior secured loans, 6% in second lien secured debt and 7% in subordinated debt, preferred and common equity investments.

As of September 30, 2012, our portfolio totaled \$171.8 million and consisted of \$150.2 million of senior secured loans, \$12.0 million of second lien secured debt and \$9.6 million of subordinated debt, preferred and common equity investments. Our debt portfolio consisted of 85% variable-rate investments (including 81% with a LIBOR or prime floor) and 15% fixed-rate investments. Overall, the portfolio had net unrealized appreciation of \$0.3 million. Our overall portfolio consisted of 61 companies with an average investment size of \$2.8 million, a weighted average yield on debt investments of 8.6%, and was invested 87% in senior secured loans, 7% in second lien secured debt and 6% in subordinated debt, preferred and common equity investments.

As of September 30, 2011, our portfolio totaled \$110.7 million and consisted of \$91.4 million of senior secured loans, \$12.2 million of second lien secured debt, \$7.1 million of subordinated debt, preferred and common equity investments. Our debt portfolio consisted of 84% variable-rate investments (including 78% with a LIBOR or prime floor) and 16% fixed-rate investments. Overall, the portfolio had net unrealized depreciation of \$4.1 million. Our overall portfolio consisted of 38 companies with an average investment size of \$2.9 million, a weighted average yield on debt investments of 8.0%, and was invested 83% in senior secured loans, 11% in second lien secured debt, 6% in subordinated debt, preferred and common equity investments.

For the three months ended December 31, 2012, we invested \$38.9 million in 12 new portfolio companies and two existing portfolio companies with a weighted average yield on debt investments of 9.6%. Sales and repayments of investments for the three months ended December 31, 2012 totaled \$30.3 million.

For the three months ended December 31, 2011, we invested \$39.3 million in 13 new portfolio companies and two existing portfolio companies with a weighted average yield on debt investments of 9.4%. Sales and repayments of investments for the three months ended December 31, 2011 totaled \$22.3 million.

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For the fiscal year ended September 30, 2012, we purchased \$128.7 million of investments issued by 47 new and seven existing portfolio companies with a weighted average yield of 8.9% on debt investments. For the same period sales and repayments of investments generated proceeds of \$71.5 million.

For the period from March 4, 2011 (commencement of operations) to September 30, 2011, we purchased \$147.5 million of investments issued by 50 portfolio companies with a weighted average yield of 7.6% on debt investments. For the same period sales and repayments of investments generated proceeds of \$33.2 million.

CRITICAL ACCOUNTING POLICIES

The discussion of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from these estimates. 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 Accounting Standards Codification, or ASC, serve as a single source of literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. Changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

Valuation of Portfolio Investments

Our investments generally consist of illiquid securities including debt and equity investments. 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/dealers, if available, or otherwise from a principal market maker or a primary market dealer. 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. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

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 described in this prospectus supplement and a consistently applied valuation process. 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 from our valuations and the differences may be material.

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With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

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

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

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

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.

Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.

Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

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

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

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. 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 Statement of Assets and Liabilities and changes in fair value of the Credit Facility are reported in our Consolidated Statement of Operations. For the three months ended December 31, 2012 and 2011, the Credit Facility had a net change in unrealized (appreciation) depreciation of \$(0.4) million and \$0.4 million, respectively. As of December 31, 2012 and September 30, 2012, the Credit Facility had unrealized depreciation of zero and \$0.4 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of the Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments.

Revenue Recognition

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest if the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we determine that it is probable that we will not be able to collect such interest. Loan origination fees, OID and market discount or premium are capitalized, and we then amortize such amounts as interest income or expense, as applicable, using the effective interest method. We record contractual prepayment premiums on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

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

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

Payment-in-Kind 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. For us to maintain our status as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends, even though we have not collected any cash with respect to PIK securities.

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Federal Income Taxes

We elected to be taxed, and intend to qualify annually to maintain our election to be taxed, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements. We also must annually distribute dividends of at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of net realized net long-term capital losses, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of the sum of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) the sum of any net ordinary income plus net capital gains for preceding years that were not distributed during such years. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of 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 net ordinary income 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 realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the three months ended December 31, 2012 and 2011.

Investment Income

Investment income for the three months ended December 31, 2012 was \$4.0 million and was attributable to \$3.3 million from senior secured loans, \$0.3 million from second lien secured debt investments and \$0.4 million from subordinated debt investments. This compares to investment income for the three months ended December 31, 2011, which was \$2.5 million, and was attributable to \$2.0 million from senior secured loan investments, \$0.3 million from second lien secured debt investments and \$0.2 million from subordinated debt investments. The increase in investment income is due to a larger portfolio which was funded through our Credit Facility, and rotation out of lower yielding assets.

Expenses

Expenses for the three months ended December 31, 2012 totaled \$1.9 million. Base management fees for the same period totaled \$0.5 million, performance-based incentive fees totaled \$0.4 million, Credit Facility expenses totaled \$0.5 million, general and administrative expenses totaled \$0.5 million and excise taxes were less than \$0.1 million. This compares to expenses for the three months ended December 31, 2011, which totaled \$1.1 million. Base management fees for the same period totaled \$0.3 million, performance-based incentive fees totaled zero, Credit Facility expenses totaled \$0.3 million and general and administrative expenses totaled \$0.5 million. The increase in management fees, incentive fees and Credit Facility expenses is due to the growth of our portfolio.

Net Investment Income

Net investment income totaled \$2.1 million, or \$0.30 per share, for the three months ended December 31, 2012, and \$1.4 million, or \$0.20 per share, for the three months ended December 31, 2011. The increase in net investment income is due to a larger portfolio and higher yielding assets offset by higher Credit Facility expenses and management and incentive fees.

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Net Realized Gains or Losses

Sales and repayments of investments for the three months ended December 31, 2012 totaled \$30.3 million and realized gains totaled \$0.4 million. Sales and repayments of long-term investments totaled \$22.3 million and realized gains totaled \$0.3 million for the three months ended December 31, 2011. The increase in realized gains was driven by a higher volume of repayments than the comparable period.

Unrealized Appreciation or Depreciation on Investments and Credit Facility

For the three months ended December 31, 2012 and 2011, we reported unrealized (depreciation) appreciation on investments of \$(0.4) million and \$1.1 million, respectively. As of December 31, 2012 and September 30, 2012, net unrealized (depreciation) appreciation on investments totaled \$(0.1) million and \$0.3 million, respectively. The change in the three month period compared to last year is the result of the reversal of unrealized gains upon exiting our investments and changes in market values.

For the three months ended December 31, 2012 and 2011, our long-term Credit Facility had a change in unrealized (appreciation) depreciation of \$(0.4) million and \$0.4 million, respectively. As of December 31, 2012 and September 30, 2012, net unrealized (appreciation) depreciation on our long-term Credit Facility totaled zero and \$0.4 million, respectively. The change in the three month period compared to last year was due to changes in the leveraged finance markets.

Net Increase in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled \$1.8 million, or \$0.26 per share, for the three months ended December 31, 2012. This compares to a net increase in net assets resulting from operations which totaled \$3.1 million, or \$0.45 per share, for the three months ended December 31, 2011. The decrease in net assets resulting from operations compared to last year is due to changes in fair value of our investments due to changes in the leveraged finance markets.

RESULTS OF OPERATIONS

Set forth below are the results of operations for the year ended September 30, 2012 and the period from March 4, 2011 (commencement of operations) to September 30, 2011.

Investment Income

Investment income for the year ended September 30, 2012 was \$12.1 million and was primarily attributable to \$9.9 million from senior secured loans, \$1.0 million from second lien secured debt investments and \$1.2 million from subordinated debt investments. This compares to investment income for the period March 4, 2011 (commencement of operations) to September 30, 2011, which was \$2.9 million, and was attributable to \$2.3 million from senior secured loan investments, \$0.5 million from second lien secured debt investments, and \$0.1 million from subordinated debt investments. The increase in interest income over the prior year was due to both a full year of operation and the increased size of our portfolio.

Expenses

Expenses for the year ended September 30, 2012 totaled \$5.8 million. Base management fees for the same period totaled \$1.5 million, performance-based incentive fees totaled \$0.6 million (including \$0.3 million accrued but not to be paid under GAAP unless the net unrealized gains are realized), Credit Facility expenses totaled \$1.8 million (including \$0.3 million of amendment expenses) and general and administrative expenses totaled \$1.9 million. We expect our Credit Facility expenses and management fees to continue to increase as a result of growth in our portfolio. Additionally, general and administrative costs increased over the prior year due to a full year of operations.

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Expenses for the period March 4, 2011 (commencement of operations) to September 30, 2011, totaled \$2.6 million. Base management fee for the same period totaled \$0.4 million, debt-issuance cost (non-recurring) totaled \$1.4 million, credit facility expenses totaled \$0.1 million and general and administrative expenses totaled \$0.7 million. Expenses include organizational cost associated with starting up our operations.

Net Investment Income

Net investment income totaled \$6.3 million, or \$0.92 per share, for the year ended September 30, 2012. This compares to net investment income which totaled \$0.3 million or \$0.05 per share for the period March 4, 2011 (commencement of operations) to September 30, 2011.

Net Realized Gains or Losses

Sales and repayments of investments for the year ended September 30, 2012 totaled \$71.5 million and realized gains totaled \$0.9 million, due to sales and repayments of our debt investments. This compares to sales and repayments of long-term investments for the period March 4, 2011 (commencement of operations) to September 30, 2011 which totaled \$33.2 million and net realized gains which totaled \$0.3 million. The increase in sales and repayments of investments was due to shorter-term investment opportunities.

Unrealized Appreciation or Depreciation on Investments and Credit Facility

For the year ended September 30, 2012 and for the period March 4, 2011 (commencement of operations) to September 30, 2011, we reported unrealized appreciation (depreciation) on investments of \$4.4 million and \$(4.1) million, respectively. As of September 30, 2012 and September 30, 2011, net unrealized appreciation (depreciation) on investments totaled \$0.3 million and \$(4.1) million, respectively. Net change in unrealized appreciation on investments over the prior year was the result of changes in the overall leveraged finance markets.

For the year ended September 30, 2012 and for the period March 4, 2011 (commencement of operations) to September 30, 2011, our long-term Credit Facility had a change in unrealized depreciation of \$0.4 million and zero, respectively. As of September 30, 2012 and September 30, 2011, net unrealized depreciation on our long-term Credit Facility totaled \$0.4 million and zero, respectively. The net change in unrealized appreciation on the Credit Facility over the prior year was due to amending the terms and changes in the leveraged finance markets.

Net Increase or Decrease in Net Assets Resulting from Operations

Net increase in net assets resulting from operations totaled \$12.0 million, or \$1.75 per share, for the year ended September 30, 2012. This increase in net assets from operations was due to the continued growth in net investment income and both realized and unrealized appreciation on investments. We continue to find both long-term and short-term investment opportunities to grow net assets from operations.

Net decrease in net assets resulting from operations totaled \$3.5 million, or \$0.51 per share for the period March 4, 2011 (commencement of operations) to September 30, 2011.

LIQUIDITY AND CAPITAL RESOURCES

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

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Funding I's amended and restated Credit Facility with the Lender matures in May 2017 and its revolving period ends in May 2015. The Credit Facility allows Funding I to borrow \$100 million and contains an accordion feature whereby the Credit Facility can be expanded to \$600 million. As of December 31, 2012 and September 30, 2012, Funding I had \$85.8 million and \$75.5 million of outstanding borrowings under the Credit Facility, respectively, and carried an interest rate of 2.47%, in each case excluding the 0.375% undrawn commitment fee, and had \$10.0 million and \$20.6 million available, respectively, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on us as a BDC. As of September 30, 2011, Funding I had \$24.7 million of outstanding borrowings under the Credit Facility, and carried an interest rate of 2.53%, exclusive of the 0.50% undrawn commitment fee.

During the Credit Facility's first three years beginning in May 2012, or the revolving period, the Credit Facility bears interest at LIBOR plus 225 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in May 2017. 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, as amended, 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 (for example, fair value, as defined under ASC 820, is not permitted to be used for assets or liabilities for such compliance reporting). For a complete list of such covenants see the amended and restated revolving credit and security agreement included as an exhibit to Form 10-Q filed on August 9, 2012. As of December 31, 2012, we were in compliance with the covenants relating to our Credit Facility.

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

Our interest in Funding I (other than the management fees) 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 Lender, (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 all management fees owed with respect to such services are to be paid to the Company so long as the Investment Adviser remains the collateral manager.

We may raise equity or debt capital through both registered offerings and private offerings of securities and by securitizing a portion of our investments among, other considerations. 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 shareholders or for other general corporate purposes.

At December 31, 2012, we had cash equivalents of \$4.0 million available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

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At September 30, 2012 and 2011, we had cash equivalents of \$3.8 million and \$7.0 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 \$8.5 million for the three months ended December 31, 2012, and our financing activities provided net cash proceeds of \$8.6 million for the same period. Our operating activities used cash primarily for net investing that was financed by net draws under the Credit Facility.

Our operating activities used cash of \$11.3 million for the three months ended December 31, 2011, and our financing activities provided net cash proceeds of \$9.0 million for the same period. Our operating activities used cash primarily for net investing that was financed by net draws under the Credit Facility.

Our operating activities used cash of \$47.8 million for the year ended September 30, 2012, and our financing activities provided net cash proceeds of \$44.7 million for the same period. Our operating activities used cash primarily for net investing that was provided from net draws under the Credit Facility.

Our operating activities used cash of \$113.7 million for the period March 4, 2011 (commencement of operations) to September 30, 2011, and our financing activities provided net cash proceeds of \$120.7 million for the same period. Our operating activities used cash primarily for investing that was provided from, primarily, proceeds from our initial public offering of common stock and draws under our Credit Facility.

Contractual Obligations

A summary of our significant contractual payment obligations as of December 31, 2012, including borrowings under our Credit Facility and other contractual obligations, is as follows:

	Total	Payments due by period (millions)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$ 85.8	\$	\$	\$ 85.8	\$
Accrued sales load charges	2.1	2.1			
Total contractual obligations	\$ 87.9	\$ 2.1	\$	\$ 85.8	\$

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was re-approved by our board of directors, including a majority of our independent directors, in February 2013, PennantPark Investment Advisers serves as our Investment Adviser. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was re-approved by our board of directors, including a majority of our independent directors, in February 2013, the Administrator furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide managerial assistance to our portfolio companies, we or the Administrator will be paid an additional amount based on the services provided. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent, technology systems, insurance 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.

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In connection with our initial public offering, the Investment Adviser paid to the underwriters 2% of the sales load, or approximately \$2.1 million in the aggregate, with respect to the offering of shares of our common stock. We (and indirectly our stockholders) were obligated to repay this amount (a) if during any four consecutive calendar quarter-periods ending on or after April 13, 2012 our Pre-Incentive Fee Net Investment Income equals or exceeds 1.75% (7.0% annualized) of our net assets at the beginning of such period (as adjusted for any issuances or repurchases of shares of our common stock) or (b) upon our liquidation. Based on actual returns through December 31, 2012, we met the conditions for repayment of the sales load.

Recent Developments

Under terms agreed among us, the Investment Adviser and underwriters of our initial public offering, the Investment Adviser paid 2% of the underwriters' sales load, or approximately \$2.1 million in the aggregate, on our behalf. We agreed to repay such amount to the Investment Adviser upon its achievement of a benchmark return over four consecutive quarters, and the Investment Adviser agreed to use such amount to purchase shares of our common stock over a six-month period following such repayment. We met the conditions for repayment to the Investment Adviser at the end of the quarter ended December 31, 2012 and repaid approximately \$2.1 million to the Investment Adviser. The Investment Adviser announced that it intends to purchase shares of our common stock in the secondary market over the applicable six-month purchase period in compliance with applicable law and SEC guidance. The Investment Adviser has since completed the required purchase of shares of our common stock in the secondary market in compliance with applicable law and SEC guidance. Certain investment professionals of the Investment Adviser purchased over \$1 million of shares of our stock in transactions completed on or prior to February 20, 2013.

On February 5, 2013, our stockholders elected four directors, including Messrs. Marshall Brozost and Samuel L. Katz, each of whom will serve as Class I directors until the 2015 annual meeting, or until his successor is duly elected and qualifies or until his earlier resignation, removal from office, death or incapacity, and Messrs. Adam K. Bernstein and Jeffrey Flug, each of whom will serve as Class II directors until the 2016 annual meeting, or until his successor is duly elected and qualifies or until his earlier resignation, removal from office, death or incapacity. Also on that date, our investment management agreement, or the Investment Management Agreement, and our administration agreement, or the Administration Agreement, were reapproved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment.

Updates to Biographical Information of Independent Directors

In May 2012, Mr. Marshall Brozost became a partner at Schulte Roth & Zabel LLP, where he practices in the real estate and private equity groups.

Off-Balance Sheet Arrangements

We currently engage in no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

Dividends and Distributions

In order to qualify as a RIC and to not be subject to corporate-level tax on income, we are required, under Subchapter M of the Code, to distribute annually dividends of at least 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, if any, out of the assets legally available for distribution. Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we may distribute during each calendar year an amount at least equal to the sum of (1) 98% of our net ordinary income for the calendar year, (2) 98.2% of our realized net capital gains for the one-year period ending on October 31 of the calendar year and (3) any net ordinary income and net capital gains for preceding years that were not distributed during such years.

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In addition, although we may distribute realized net capital gains (i.e. net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may retain such net capital gains or ordinary income to provide us with additional liquidity.

During the three months ended December 31, 2012 and 2011, we declared to stockholders distributions of approximately \$0.25 and \$0.21 per share, respectively, for total distributions of \$1.7 million and \$1.4 million, respectively. During the year ended September 30, 2012, we declared distributions of \$0.91 per share for total distributions of \$6.2 million. For the period March 4, 2011 (commencement of operations) to September 30, 2011, we declared distributions of \$0.25 per share for a total distribution of \$1.7 million. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year and in our periodic reports filed with the SEC.

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

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. We cannot assure stockholders that they will receive any dividends and distributions at a particular level.

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

Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of December 31, 2012, our debt portfolio consisted of 87% variable-rate investments (including 81% with a LIBOR or prime floor) and 13% fixed-rate investments. As of September 30, 2012, our debt portfolio consisted of 85% variable-rate investments (including 81% with a LIBOR or prime floor) and 15% 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.

Assuming that the most recent statement of assets and liabilities were to remain constant, and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates may affect net income by more than 1% over a one-year horizon. 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 Statement 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 the statement above.

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

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Table of Contents**SENIOR SECURITIES**

Information about our senior securities is shown in the following table as of December 31, 2012 has been derived from our unaudited Consolidated Financial Statements. Information about our senior securities is shown in the following table as of September 30, 2012 and 2011, has been derived from our Consolidated Financial Statements which have been audited by KPMG LLP, an independent registered public accounting firm. This information about our senior securities should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement and in the accompanying prospectus for more information.

Class and Year	Total Amount Outstanding (1)	Asset Coverage per Unit (2)	Average Market Value Per Unit (4)
Credit Facility			
Fiscal 2013 (as of December 31, 2012)	\$ 85,775	\$ 2,117	N/A
Fiscal 2012	\$ 75,500	\$ 2,268	N/A
Fiscal 2011	\$ 24,650	\$ 4,735	N/A

- (1) Total cost of each class of senior securities outstanding at the end of the period presented in thousands (000s).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by cost of senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit. This information is unaudited.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, as senior securities are not registered for public trading and is unaudited.

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ADDITIONAL MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

As described more fully in the accompanying prospectus, we intend to qualify annually as a RIC under Subchapter M of the Code and the applicable Treasury regulations. The following discussion, which supplements and updates the discussion under the heading "Material U.S. Federal Income Tax Considerations" in the accompanying prospectus, is a summary of certain additional material U.S. federal income tax considerations.

Congress recently enacted, and the President recently signed, the American Taxpayer Relief Act of 2012, or ATRA. Among other things, ATRA provided for the permanent extension of the 2012 ordinary and long-term capital gains tax rates for individuals with taxable income at or below certain thresholds, which are indexed for inflation (\$400,000 in the case of unmarried individuals and \$450,000 in the case of married couples filing jointly). However, because ATRA did not extend the 2012 tax rates for all taxpayers, for taxable years beginning after December 31, 2012, non-corporate taxpayers will be subject to a maximum rate of tax on ordinary income of 39.6% and a maximum rate of tax on long-term capital gains of 20%.

ATRA also provided for a permanent extension of the taxation of qualified dividends received by non-corporate taxpayers at the same maximum rates applicable to long-term capital gains. Accordingly, distributions of our investment company taxable income that are reported by us as being derived from qualified dividend income will be taxed in the hands of non-corporate U.S. stockholders at the rates applicable to long-term capital gain, provided that holding period and other requirements are met by both the stockholders and us. As discussed in the accompanying prospectus, dividends distributed by us will generally not be attributable to qualified dividend income.

In addition, in the case of non-U.S. stockholders, ATRA provided for a one-year extension (as well as the retroactive application to the beginning of 2012) of the special exemption from withholding for interest-related dividends and short-term capital gain dividends. Accordingly, for our taxable years beginning prior to January 1, 2014, properly designated dividends received by a non-U.S. stockholder generally are exempt from U.S. federal withholding tax when they (1) are paid in respect of our qualified net interest income (generally, our U.S. source interest income, other than certain contingent interest and interest from obligations of a corporation or partnership in which we are at least a 10% stockholder, reduced by expenses that are allocable to such income), or (2) were paid in connection with our qualified short-term capital gains (generally, the excess of our net short-term capital gain over our long-term capital loss for such taxable year). There can be no assurance that this provision will be further extended and, depending on the circumstances, we may designate all, some or none of our potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. Additionally, a portion of our distributions (e.g., interest from non-U.S. sources or any foreign currency gains) would be ineligible for this potential exemption from withholding. In order to qualify for this exemption from withholding, a non-U.S. stockholder must comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN or an acceptable substitute or successor form). In the case of shares held through an intermediary, the intermediary could withhold even if we designate the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. stockholders should contact their intermediaries with respect to the application of these rules to their accounts.

An investment in shares by a non-U.S. stockholder may also be subject to U.S. federal estate tax. Non-U.S. stockholders should consult their own tax advisors with respect to the U.S. federal income tax, U.S. federal estate tax, withholding tax, and state, local and foreign tax consequences of acquiring, owning or disposing of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Table of Contents**UNDERWRITING**

We intend to offer the shares through the underwriters named in the table below. Morgan Stanley & Co. LLC, J.P. Morgan Securities LLC and Keefe, Bruyette & Woods, Inc. are acting as joint bookrunners and representatives of the several underwriters. Subject to the terms and conditions described in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase from us, the number of shares set forth opposite the underwriter's name.

Underwriter Names	Number of Shares
Morgan Stanley & Co. LLC	
J.P. Morgan Securities LLC	
Keefe, Bruyette & Woods, Inc.	
Total	3,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and our independent registered public accounting firm. The underwriters are committed to purchase all shares included in this offering, other than those shares covered by the option to purchase additional shares described below, if they purchase any of the shares. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

Commissions and Discounts

The underwriters have advised us that they propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of \$ _____ per share. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters' overallotment option to purchase up to an additional 450,000 shares.

	Per Share	Without Overallotment Option	With Overallotment Option
Public offering price	\$	\$	\$
Underwriting discount ⁽¹⁾	\$	\$	\$
Proceeds to PennantPark Floating Rate Capital Ltd. (before offering expenses of \$400,000)	\$	\$	\$

- (1) Our Investment Adviser, has agreed to pay the underwriters the sales load in the amount of \$ _____ million, or \$ _____ per share, (or \$ _____ million, or \$ _____ per share if the overallotment options is fully exercised) of the sales load in connection with this offering, which is not reflected in the above table. All other expenses of the offering including the sales load not paid by our Investment Adviser will be borne by us.

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Overallotment Option

We have granted an option to the underwriters to purchase up to 450,000 additional shares at the public offering price less the underwriting discount solely to cover overallotments. The underwriters may exercise this overallotment option for 30 days from the date of this prospectus supplement. If the underwriters exercise this option, they will be obligated, subject to conditions contained in the underwriting agreement, to purchase the additional shares approximately proportionate to that underwriter's initial purchase commitment.

No Sales of Similar Securities

We have agreed, with exceptions, not to sell or transfer any common stock for 90 days after the date of this prospectus without first obtaining the written consent of Morgan Stanley & Co. LLC.

Our executive officers and directors, PennantPark Investment Advisers, LLC, and Pennant Park Investment Administration, LLC have agreed, with exceptions, not to sell or transfer any common stock for 90 days after the date of this prospectus supplement without first obtaining the written consent of Morgan Stanley & Co. LLC. Specifically, we and these other individuals and entities have agreed not to directly or indirectly:

offer, pledge, sell or contract to sell any common stock;

sell any option or contract to purchase any common stock;

purchase any option or contract to sell any common stock;

grant any option, right or warrant for the sale of any common stock;

lend or otherwise dispose of or transfer any common stock;

request or demand that we file a registration statement related to the common stock; or

enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

Quotation on the NASDAQ Global Select Market

Our common stock is quoted on The NASDAQ Global Select Market under the symbol PFLT.

Price Stabilization and Short Positions

Until the distribution of the shares is completed, SEC rules may limit the underwriters from bidding for and purchasing our common stock. However, the underwriters may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

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If the underwriters create a short position in the common stock in connection with the offering, (i.e., if they sell more shares than are listed on the cover of this prospectus supplement), the underwriters may reduce that short position by purchasing shares in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the option to purchase additional shares described above. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the option to purchase additional shares. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

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The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Neither we nor the underwriters make any representation or prediction as to the magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Delivery

The underwriters may make prospectuses available in electronic (PDF) format. A prospectus in electronic (PDF) format may be made available on a web site maintained by the underwriters, and the underwriters may distribute such prospectuses electronically. The underwriters may allocate a limited number of shares for sale to their online brokerage customers.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and their affiliates have provided in the past to the Company and may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to us for which they received or will receive customary fees and expenses. In particular, the underwriters or their affiliates may execute transactions with or on behalf of the Company. In addition, the underwriters or their affiliates may act as arrangers, underwriters or placement agents for companies whose securities are sold to us.

In the ordinary course of their various business activities, the underwriters or their affiliates may also trade in our securities, securities of our portfolio companies or other financial instruments related thereto for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to us or any of our portfolio companies. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We may purchase securities of third parties from the underwriters or their affiliates after the offering. However, we have not entered into any agreement or arrangement regarding the acquisition of any such securities, and we may not purchase any such securities. We would only purchase any such securities if, among other things, we identified securities that satisfied our investment needs and completed our due diligence review of such securities.

After the date of this prospectus supplement, the underwriters and their affiliates may from time to time obtain information regarding specific portfolio companies or us that may not be available to the general public. Any such information is obtained by the underwriters and their affiliates in the ordinary course of its business and not in connection with the offering of the common stock. In addition, after the offering period for the sale of our common stock, the underwriters or their affiliates may develop analyses or opinions related to PennantPark Floating Rate Capital Ltd. or our portfolio companies and buy or sell interests in one or more of our portfolio companies on behalf of their proprietary or client accounts and may engage in competitive activities. There is no obligation on behalf of these parties to disclose their respective analyses, opinions or purchase and sale activities regarding any portfolio company or regarding PennantPark Floating Rate Capital Ltd. to our stockholders.

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Affiliates of certain of the underwriters may serve as lenders under any future credit facility. Some of the underwriters and their affiliates were underwriters in connection with our initial public offering for which they received customary fees.

The principal business addresses of the underwriters are: Morgan Stanley & Co. LLC, 1585 Broadway, New York, NY 10036; J.P. Morgan Securities LLC, 383 Madison Avenue, New York, NY 10179; Keefe, Bruyette & Woods, Inc., 787 Seventh Avenue, 4th Floor, New York, NY 10019.

European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of warrants and shares of common stock described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the shares of common stock that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of warrants may be made to the public in that relevant member state at any time:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For purposes of this provision, the expression an offer of shares to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase the shares, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each relevant member state and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

This EEA selling restriction is in addition to any other selling restrictions set out in this Prospectus.

United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). The shares of common stock are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares of common stock will be engaged in only with, relevant persons.

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Switzerland

This prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations (CO) and the shares will not be listed on the SIX Swiss Exchange. Therefore, this prospectus may not comply with the disclosure standards of the CO and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the shares with a view to distribution.

Australia

This prospectus is not a formal disclosure document and has not been, nor will be, lodged with the Australian Securities and Investments Commission. It does not purport to contain all information that an investor or their professional advisers would expect to find in a prospectus or other disclosure document (as defined in the Corporations Act 2001 (Australia)) for the purposes of Part 6D.2 of the Corporations Act 2001 (Australia) or in a product disclosure statement for the purposes of Part 7.9 of the Corporations Act 2001 (Australia), in either case, in relation to the securities.

The securities are not being offered in Australia to retail clients as defined in sections 761G and 761GA of the Corporations Act 2001 (Australia). This offering is being made in Australia solely to wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Australia) and, as such, no prospectus, product disclosure statement or other disclosure document in relation to the securities has been, or will be, prepared.

This prospectus does not constitute an offer in Australia other than to wholesale clients. By submitting an application for our securities, you represent and warrant to us that you are a wholesale client for the purposes of section 761G of the Corporations Act 2001 (Australia). If any recipient of this prospectus is not a wholesale client, no offer of, or invitation to apply for, our securities shall be deemed to be made to such recipient and no applications for our securities will be accepted from such recipient. Any offer to a recipient in Australia, and any agreement arising from acceptance of such offer, is personal and may only be accepted by the recipient. In addition, by applying for our securities you undertake to us that, for a period of 12 months from the date of issue of the securities, you will not transfer any interest in the securities to any person in Australia other than to a wholesale client.

Hong Kong

Our securities may not be offered or sold in Hong Kong, by means of this prospectus or any document other than (i) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong). No advertisement, invitation or document relating to our securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

Our securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and our securities will not be offered or sold, directly or indirectly, in Japan, or to, or for the benefit of, any resident of Japan (which term as used herein means any

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person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan, or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore and in Singapore, the offer and sale of our securities is made pursuant to exemptions provided in sections 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (SFA). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our securities may not be circulated or distributed, nor may our securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this document is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Prospective investors in Singapore should consider carefully whether an investment in our securities is suitable for them.

Where our securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) by a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) for a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 of the SFA, except:

(1) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares of that corporation or such rights and interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) where the transfer is by operation of law.

In addition, investors in Singapore should note that the securities acquired by them are subject to resale and transfer restrictions specified under Section 276 of the SFA, and they, therefore, should seek their own legal advice before effecting any resale or transfer of their securities.

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LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus supplement will be passed upon for PennantPark Floating Rate Capital Ltd. by Dechert LLP, Washington, D.C., and Venable LLP, Baltimore, Maryland. Dechert LLP has from time to time represented the underwriters, PennantPark Floating Rate Capital Ltd. and the Investment Adviser on unrelated matters. Certain legal matters in connection with the offering will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, NY.

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Management's Report on Internal Control Over Financial Reporting

The management of PennantPark Floating Rate Capital, Ltd., or we, us, our and Company, is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is a process designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on the assessment management believes that, as of September 30, 2012, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the financial statements has issued an audit report on the effectiveness of our internal control over financial reporting as of September 30, 2012. This report appears on page S-44.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

PennantPark Floating Rate Capital Ltd. and its Subsidiary:

We have audited the accompanying consolidated statements of assets and liabilities of PennantPark Floating Rate Capital Ltd. and its Subsidiary (collectively referred to as the Company), including the consolidated schedules of investments as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended September 30, 2012 and for the period March 4, 2011 (commencement of operations) to September 30, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of investments owned as of September 30, 2012 by correspondence with the custodians and portfolio companies or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PennantPark Floating Rate Capital Ltd. and its Subsidiary as of September 30, 2012 and 2011, and the results of their operations and their cash flows for the year ended September 30, 2012 and for the period March 4, 2011 (commencement of operations) to September 30, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PennantPark Floating Rate Capital, Ltd. and its Subsidiary's, internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 14, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York

November 14, 2012

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Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders

PennantPark Floating Rate Capital Ltd. and its Subsidiary:

We have audited PennantPark Floating Rate Capital Ltd. and its Subsidiary (the Company) internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included on page 53 of the Annual Report on Form 10-K, and Item 9A., Controls and Procedures Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PennantPark Floating Rate Capital, Ltd. and its Subsidiary maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control Integrated Framework*, issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statements of assets and liabilities of PennantPark Floating Rate Capital Ltd. and its Subsidiary, including the schedules of investments as of September 30, 2012 and 2011, and the related statements of operations, changes in net assets, and cash flows for the year ended September 30, 2012 and for the period March 4, 2011 (commencement of operations) to September 30, 2011 and our report dated November 14, 2012 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP

New York, New York

November 14, 2012

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	September 30, 2012	September 30, 2011
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$171,578,009 and \$114,829,621, respectively)	\$ 171,834,400	\$ 110,724,241
Cash equivalents (See Note 7)	3,845,803	6,987,450
Interest receivable	1,388,867	732,695
Receivable for investments sold	986,278	2,467,500
Prepaid expenses and other assets	311,313	163,374
Total assets	178,366,661	121,075,260
Liabilities		
Distributions payable	548,053	479,547
Payable for investments purchased	3,357,500	990,000
Unfunded investments		2,323,250
Credit Facility payable		
(cost \$75,500,000 and \$24,650,000, respectively) (See Notes 5 and 10)	75,122,500	24,650,000
Interest payable on Credit Facility	161,550	150,246
Management fee payable (See Note 3)	424,747	266,432
Performance-based incentive fees payable (See Note 3)	506,314	
Accrued other expenses	447,120	143,680
Accrued sales load charges (See Note 3)	2,055,000	
Total liabilities	82,622,784	29,003,155
Net Assets		
Common stock, 6,850,667 shares are issued and outstanding.		
Par value \$0.001 per share and 100,000,000 shares authorized.	6,851	6,851
Paid-in capital in excess of par value	95,192,222	97,251,174
Distributions in excess of net investment income	(1,313,000)	(1,392,528)
Accumulated net realized gain on investments	1,223,913	311,988
Net unrealized appreciation (depreciation) on investments	256,391	(4,105,380)
Net unrealized appreciation on Credit Facility	377,500	
Total net assets	\$ 95,743,877	\$ 92,072,105
Total liabilities and net assets	\$ 178,366,661	\$ 121,075,260
Net asset value per share	\$ 13.98	\$ 13.44

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year ended September 30, 2012	For the period March 4, 2011 (commencement of operations) to September 30, 2011
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$ 11,856,483	\$ 2,946,599
Other income	242,065	
Total income	12,098,548	2,946,599
Expenses:		
Base management fee (See Note 3)	1,494,616	365,433
Performance-based incentive fees (Note 3)	564,540	
Interest and expenses on the Credit Facility (See Note 10)	1,482,339	155,913
Administrative services expenses (See Note 3)	583,613	182,995
Other general and administrative expenses	1,310,084	556,076
Expenses before Credit Facility costs and excise tax expense	5,435,192	1,260,417
Credit Facility issuance costs (See Note 10)	311,648	1,366,043
Excise tax	42,027	
Total expenses	5,788,867	2,626,460
Net investment income	6,309,681	320,139
Realized and unrealized gain (loss) on investments and Credit Facility:		
Net realized gain on non-controlled, non-affiliated investments	911,925	311,988
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments	4,361,772	(4,105,380)
Credit Facility appreciation (See Note 5)	377,500	
Net change in unrealized appreciation (depreciation) on investments and Credit Facility	4,739,272	(4,105,380)
Net realized and unrealized gain (loss) from investments and Credit Facility	5,651,197	(3,793,392)
Net increase (decrease) in net assets resulting from operations	\$ 11,960,878	\$ (3,473,253)
Net increase (decrease) in net assets resulting from operations per common share (See Note 6)	\$ 1.75	\$ (0.51)
Net investment income per common share	\$ 0.92	\$ 0.05

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year ended September 30, 2012	For the period March 04, 2011 (commencement of operations) to September 30, 2011
Net increase (decrease) in net assets resulting from operations:		
Net investment income	\$ 6,309,681	\$ 320,139
Net realized gain on investments	911,925	311,988
Net change in unrealized appreciation (depreciation) on investments	4,361,772	(4,105,380)
Net change in unrealized appreciation on Credit Facility	377,500	
Net increase (decrease) in net assets resulting from operations	11,960,878	(3,473,253)
Distributions to stockholders:		
Distributions	(6,234,106)	(1,712,667)
Capital Transactions:		
Proceeds from issuance of common stock		102,760,000
Accrued sales load charges (See Notes 1 and 3)	(2,055,000)	(5,501,975)
Net (decrease) increase in net assets resulting from capital transactions	(2,055,000)	97,258,025
Net increase in net assets	3,671,772	92,072,105
Net assets:		
Beginning of period	\$ 92,072,105	\$
End of period	\$ 95,743,877	\$ 92,072,105
Distributions in excess of net investment income, end of period	\$ (1,313,000)	\$ (1,392,528)
Capital Share Activity:		
Issuance of shares from offerings		6,850,667

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

	Year ended September 30, 2012	For the period March 04, 2011 (commencement of operations) to September 30, 2011
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	\$ 11,960,878	\$ (3,473,253)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used by operating activities:		
Net change in unrealized (appreciation) depreciation on investments	(4,361,772)	4,105,380
Net change in unrealized appreciation on Credit Facility	(377,500)	
Net realized gain on investments	(911,925)	(311,988)
Net accretion of discount and amortization of premium	(704,452)	(136,975)
Purchase of investments	(128,673,695)	(147,545,077)
Payment-in-kind interest	(119,552)	(42,074)
Proceeds from dispositions of investments	71,499,356	33,206,493
Decrease (increase) in receivable for investments sold	1,481,222	(2,467,500)
(Increase) in interest receivable	(656,172)	(732,695)
(Increase) in prepaid expenses and other assets	(147,939)	(163,374)
Increase in payable for investments purchased	2,367,500	990,000
(Decrease) increase in unfunded investments	(161,370)	2,323,250
Increase in interest payable on Credit Facility	11,304	150,246
Increase in management fee payable	158,315	266,432
Increase in performance-based incentive fees payable	506,314	
Increase in accrued expenses	303,440	143,680
Net cash used by operating activities	(47,826,048)	(113,687,455)
Cash flows from financing activities:		
Proceeds from offerings		102,760,000
Offering costs		(5,501,975)
Distributions paid to stockholders	(6,165,599)	(1,233,120)
Borrowings under Credit Facility (See Notes 5 and 10)	97,650,000	29,000,000
Repayments under Credit Facility (See Notes 5 and 10)	(46,800,000)	(4,350,000)
Net cash provided by financing activities	44,684,401	120,674,905
Net (decrease) increase in cash equivalents	(3,141,647)	6,987,450
Cash equivalents, beginning of period	6,987,450	
Cash equivalents, end of period	\$ 3,845,803	\$ 6,987,450
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,471,035	\$ 5,556
Taxes paid	\$ 3,952	\$

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS**

September 30, 2012

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽¹⁾	Par/Shares	Cost	Fair Value ⁽²⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 179.5%^{(3),(4)}							
First Lien Secured Debt 156.9%							
Airvana Network Solutions Inc.	03/25/2015	Telecommunications	10.00%	L+800	214,286	\$ 214,838	\$ 214,018
Archipelago Learning, Inc.	05/17/2018	Media, Broadcasting and Subscription	7.50%	L+600	987,500	959,574	987,500
Aspen Dental Management, Inc.	10/06/2016	Consumer Services	7.00%	L+550	2,977,500	2,937,079	2,962,613
Attachmate Corporation	11/22/2017	High Tech Industries	7.25%	L+575	2,943,750	2,888,381	2,960,309
Autoparts Holdings Limited	07/28/2017	Automotive	6.50%	L+500	990,000	985,747	987,525
Blue Coat Systems, Inc.	02/15/2018	High Tech Industries	7.50%	L+600	3,975,000	3,902,979	4,014,750
C.H.I. Overhead Doors, Inc.	08/17/2017	Consumer Goods: Durable	7.25%	L+575	3,866,119	3,801,408	3,859,675
DCS Business Services, Inc.	03/19/2018	Business Services	7.25%	L+575	3,733,125	3,673,063	3,677,128
Document Technologies, Inc.	12/01/2016	Business Services	6.50%	L+500	990,000	981,827	987,525
DS Waters of America, Inc.	08/29/2017	Beverage, Food and Tobacco	10.50%	L+900	3,980,000	3,904,846	4,109,350
EAG, Inc.	07/28/2017	Business Services	6.75%	P+350	950,104	946,081	945,353
EIG Investors Corp.	04/20/2018	High Tech Industries	7.75%	L+625	3,990,000	3,952,867	4,009,950
Emerald Performance Materials, LLC	05/18/2018	Chemicals, Plastics and Rubber	6.75%	L+550	1,995,000	1,975,762	2,004,975
eResearchtechnology, Inc.	05/02/2018	Healthcare and Pharmaceuticals	8.00%	L+650	3,000,000	2,884,003	2,962,500
Fundtech (US FT HOLDCO, INC.)	11/30/2017	Business Services	7.50%	L+600	2,977,500	2,898,672	2,977,500
GFA Brands, Inc.	07/02/2018	Beverage, Food and Tobacco	7.00%	L+575	1,995,000	1,956,496	2,012,456
Graton Economic Development Authority ^{(5),(8)}	09/02/2019	Hotel, Gaming and Leisure	9.63%		3,000,000	3,000,000	3,120,000
Gundle/SLT Environmental, Inc.	05/27/2016	Environmental Industries	7.00%	L+550	2,956,829	2,933,351	2,934,653
Healogics, Inc. (f/k/a National Healing Corp.)	11/30/2017	Healthcare and Pharmaceuticals	8.25%	L+675	4,962,500	4,742,008	4,925,281
HMK Intermediate Holdings LLC	04/01/2019	Retail	7.25%	L+600	2,985,000	2,929,228	2,992,463
Howard Berger Co. LLC	08/03/2017	Wholesale	7.00%	L+575	2,743,125	2,702,953	2,715,694
IDQ Holdings, Inc. ^{(5),(8)}	03/30/2017	Automotive	11.50%		2,000,000	1,963,159	2,125,000
Ikaria, Inc.	06/22/2016	Healthcare and Pharmaceuticals	7.75%	L+650	1,700,000	1,691,500	1,649,000
Instant Web, Inc.	08/07/2014	Media: Advertising, Printing and Publishing	3.59% ⁽⁹⁾	L+338	6,836,508	6,534,349	5,247,020
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	L+775	5,476,250	5,512,699	5,558,394
KIK Custom Products Inc. ^{(6),(8)}	06/02/2014	Consumer Goods: Non-Durable	8.50%	L+700	4,937,500	4,845,282	4,863,438
Medpace Intermediateco, Inc.	06/19/2017	Business Services	6.50%	L+500	1,844,649	1,821,373	1,766,252
MModal Inc.	08/16/2019	Business Services	6.75%	L+550	3,400,000	3,349,374	3,351,125
Mood Media Corporation ⁽⁶⁾	05/07/2018	Media: Diversified and Production	7.00%	L+550	3,950,000	3,916,596	3,921,611
MOSAID Technologies Incorporated ⁽⁶⁾	12/23/2016	High Tech Industries	8.50%	L+700	2,887,500	2,826,368	2,887,500
MX USA, INC and KAN-DI-KI, LLC	05/01/2017	Healthcare and Pharmaceuticals	6.50%	L+525	2,985,000	2,943,607	2,955,150
NAB Holdings, LLC	04/24/2018	Banking, Finance, Insurance and Real Estate	7.00%	L+550	987,500	973,817	997,375
Pelican Products, Inc.	07/11/2018	Containers, Packaging and Glass	7.00%	L+550	1,496,250	1,467,389	1,492,509
Penton Media, Inc.			5.00				
			(PIK)				
	08/01/2014	Media: Diversified and Production	1.00% ^(%)	L+400	5,497,407	4,931,995	4,439,156

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Potter s Holdings II, L.P.	05/08/2017	Containers, Packaging and Glass	6.00%	L+450	1,975,000	1,958,715	1,967,594
Pro Mach, Inc.	07/06/2017	Capital Equipment	6.25%	L+475	978,077	970,036	967,889
Renaissance Learning, Inc.		Media: Broadcasting and					
	10/19/2017	Subscription	7.75%	L+625	1,980,000	1,909,788	1,994,850
Rocket Software, Inc.	02/08/2018	High Tech Industries	7.00%	L+550	3,970,000	3,898,141	3,970,000
Sabre Industries, Inc.	08/24/2018	Construction and Building	7.00%	L+575	3,000,000	2,955,509	2,973,126

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

September 30, 2012

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽¹⁾	Par/Shares	Cost	Fair Value ⁽²⁾
Securus Technologies, Inc.	05/31/2017	Telecommunications	6.50%	L+525	2,962,500	\$ 2,938,182	\$ 2,960,648
Seven Seas Cruises S. DE R.L.	12/21/2018	Hotel, Gaming and Leisure	6.25%	L+500	1,500,000	1,485,300	1,505,625
Sotera Defense Solutions, Inc.	04/21/2017	Aerospace and Defense	7.00%	L+550	2,962,512	2,939,052	2,932,887
Tekelec Global, Inc. (First Out)	01/29/2018	Telecommunications	9.00%	L+750	150,000	147,935	150,000
Tekelec Global, Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200	1,875,000	1,823,914	1,914,375
Triple Point Technology, Inc.	10/27/2017	High Tech Industries	8.00%	L+650	992,500	958,036	992,500
UniTek Global Services, Inc.	04/16/2018	Telecommunications	9.00%	L+750	1,995,000	1,935,550	1,950,113
Univita Health Inc.	06/19/2017	Consumer Services	6.25%	L+475	2,962,500	2,938,318	2,844,000
Valitas Health Services, Inc.	06/02/2017	Healthcare and Pharmaceuticals	5.75%	L+450	1,481,250	1,474,945	1,466,438
Vantage Specialties, Inc.	02/09/2018	Chemicals, Plastics and Rubber	7.00%	L+550	2,985,000	2,930,559	2,999,925
Viamedia Services Corp.	04/19/2016	Media: Advertising, Printing and Publishing	7.00%	L+550	4,187,556	4,147,483	4,187,556
Virtual Radiologic Corporation	12/22/2016	Business Services	7.75%	P+450	2,970,000	2,940,842	2,643,300
W3 CO.	10/31/2017	Energy: Oil and Gas	7.50%	L+625	1,985,000	1,916,035	1,982,519
Water Pik, Inc.	08/10/2017	Consumer Goods: Durable	6.75%	L+525	3,465,000	3,434,281	3,456,338
WCA Waste Corporation	03/23/2018	Environmental Industries	5.50%	L+425	995,000	985,787	998,316
Wilton Brands, LLC	08/30/2018	Consumer Goods: Non-Durable	7.50%	L+625	3,400,000	3,332,763	3,417,000
Yonkers Racing Corporation ^{(5),(8)}	07/15/2016	Hotel, Gaming and Leisure	11.38%		4,000,000	4,288,196	4,320,000
Total First Lien Secured Debt						150,258,038	150,209,747
Second Lien Secured Debt 12.6%							
American Gilsonite Company ^{(5),(8)}	09/01/2017	Metals and Mining	11.50%		3,000,000	3,000,000	3,082,500
Autoparts Holdings Limited	01/29/2018	Automotive	10.50%	L+900	1,000,000	995,180	900,000
Cannery Casino Resorts, LLC ⁽⁸⁾	10/02/2019	Hotel, Gaming and Leisure	10.00%	L+875	1,700,000	1,666,000	1,691,500
Mood Media Corporation ⁽⁶⁾	11/06/2018	Media: Diversified and Production	10.25%	L+875	1,500,000	1,486,780	1,475,250
ROC Finance LLC and ROC Finance 1 Corp ^{(5),(8)}	09/01/2018	Hotel, Gaming and Leisure	12.13%		2,000,000	1,969,103	2,320,000
Sensus USA Inc.	05/09/2018	Utilities: Water	8.50%	L+725	1,000,000	991,580	996,250
Seven Seas Cruises ^{(5),(6),(8)}	05/15/2019	Hotel, Gaming and Leisure	9.13%		1,500,000	1,500,000	1,560,000
Total Second Lien Secured Debt						11,608,643	12,025,500

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**Subordinated
Debt/Corporate
Notes 8.7%**

Affinion Group Holdings, Inc.	11/15/2015	Consumer Goods: Non-Durable	11.63%	4,100,000	3,782,015	2,788,000
Document Technologies, Inc.	12/01/2017	Business Services	13.00%	1,000,000	980,074	1,000,000
TrustHouse Services Group, Inc.	06/03/2019	Beverage, Food and Tobacco	14.25%			
			(PIK 2.25%)	4,508,719	4,432,092	4,508,719

**Total Subordinated
Debt/Corporate Notes**

9,194,181 8,296,719

**Preferred
Equity/Partnership
Interests 0.2%**

TrustHouse Services Holdings, LLC (TrustHouse Services Group, Inc.)		Beverage, Food and Tobacco	12.50%	176	110,697	200,571
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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

September 30, 2012

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽¹⁾	Par/ Shares	Cost	Fair Value ⁽²⁾
Common Equity/Partnership Interests 1.1%^{(7),(8)}							
Titan Private Holdings I, LLC (Tekelec Global, Inc.)		Telecommunications			401,797	\$ 401,450	\$ 1,091,018
TrustHouse Services Holdings, LLC (TrustHouse Services Group, Inc.)		Beverage, Food and Tobacco			8	5,000	10,845
Total Common Equity						406,450	1,101,863
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						171,578,009	171,834,400
Cash Equivalents 4.0%						3,845,803	3,845,803
Total Investments and Cash Equivalents 183.5%						\$ 175,423,812	\$ 175,680,203
Liabilities in Excess of Other Assets (83.5)%							(79,936,326)
Net Assets 100.0%							\$ 95,743,877

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or L, or prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted.
- (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 deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a 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 deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-U.S. company or principal place of business outside the United States.
- (7) Non-income producing securities.
- (8) The securities are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility.
- (9) Coupon is not subject to a LIBOR or Prime rate floor.

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS****SEPTEMBER 30, 2011**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽¹⁾	Par/Shares	Cost	Fair Value⁽²⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 120.2%^{(3),(4)}							
First Lien Secured Debt 99.2%							
Airvana Network Solutions Inc.	03/25/2015	Telecommunications	10.00%	L+800	1,209,524	\$ 1,213,365	\$ 1,215,571
Artel, LLC	06/01/2016	Telecommunications	5.50%	L+425	987,500	978,043	972,688
Autoparts Holdings Limited	07/29/2017	Automotive	6.50%	L+500	1,000,000	995,085	992,500
Chester Downs and Marina, LLC ⁽⁵⁾	07/31/2016	Hotel, Gaming and Leisure	12.38%	L+988	478,873	488,220	476,878
C.H.I. Overhead Doors, Inc.	08/17/2017	Consumer Goods: Durable	7.25%	L+575	4,000,000	3,921,236	3,900,000
EAG, Inc.	07/28/2017	Business Services	6.75%	P+350	987,500	982,590	967,750
Ernest Health, Inc.	05/13/2016	Healthcare and Pharmaceuticals	6.25%	L+475	2,966,250	2,939,107	2,936,587
Frac Tech International, LLC ⁽⁵⁾	05/06/2016	Energy: Oil and Gas	6.25%	L+475	2,073,930	2,054,330	2,033,747
Gundle/SLT Environmental, Inc.	05/27/2016	Environmental Industries	7.01%	L+550	2,992,500	2,964,467	2,812,950
Harmony Foods Corporation ^{(5),(6),(11)}	05/01/2016	Beverage, Food and Tobacco	10.00%		2,000,000	2,000,000	1,990,000
Insight Global, Inc.	08/16/2017	Business Services	6.50%	L+500	2,493,750	2,481,331	2,475,047
Instant Web, Inc. ^{(5),(7)}	08/07/2014	Media: Advertising, Printing and Publishing	3.61%	L+338	6,981,823	6,523,240	6,283,641
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675	5,476,250	5,525,637	5,202,437
KAR Auction Services, Inc. ⁽⁵⁾	05/19/2017	Automotive	5.00%	L+375	2,992,500	2,978,487	2,895,244
KIK Custom Products Inc. ^{(5),(7)}	05/31/2014	Consumer Goods: Non-Durable	8.50%	L+700	4,987,500	4,847,186	4,713,187
Medpace Holdings, Inc.	06/17/2017	Business Services	6.50%	L+500	1,995,000	1,966,025	1,895,250
Mood Media Corporation ⁽⁷⁾	05/06/2018	Media: Diversified and Production	7.00%	L+550	3,990,000	3,951,886	3,670,800
Penton Media, Inc. ⁽⁵⁾	08/01/2014	Media: Diversified and Production	5.00% ⁽⁸⁾	L+400	5,498,048	4,675,936	3,802,818
Potter s Holdings II, L.P.	05/08/2017	Containers, Packaging and Glass	6.00%	L+450	1,995,000	1,976,257	1,900,237
Pro Mach, Inc.	07/06/2017	Capital Equipment	6.25%	L+475	997,500	987,986	982,537
Securus Technologies, Inc.	05/31/2017	Telecommunications	5.25%	L+400	2,992,500	2,963,597	2,891,503
Select Medical Corporation ⁽⁵⁾	06/01/2018	Business Services	5.50%	L+375	2,992,500	2,963,943	2,708,212
Sotera Defense Solutions, Inc.	04/22/2017	Aerospace and Defense	7.00%	L+550	2,992,500	2,964,848	2,917,688
Tank Intermediate Holding Corp.	04/15/2016	Containers, Packaging and Glass	5.00%	L+375	1,835,472	1,831,420	1,807,940
Terex Corporation	04/28/2017	Capital Equipment	5.50%	L+400	2,000,000	1,980,598	1,962,500
Triple Point Technology, Inc.	04/14/2016	High Tech Industries	6.25%	L+475	4,968,750	4,923,769	4,819,688
Univita Health Inc.	06/19/2017	Consumer Services	6.25%	L+475	2,992,500	2,964,110	2,827,913
U.S. Healthworks Holding Company, Inc.	06/15/2016	Healthcare and Pharmaceuticals	6.25%	L+475	2,992,500	2,964,480	2,887,763
Valitas Health Services, Inc.	06/02/2017	Healthcare and Pharmaceuticals	5.75%	L+450	1,496,250	1,489,223	1,406,475
Viamedia Services Corp. ⁽⁵⁾	04/19/2016	Media: Advertising, Printing and Publishing	7.00%	L+550	4,750,000	4,694,273	4,690,625
Virtual Radiologic Corporation	12/22/2016	Business Services	7.75%	P+450	2,992,500	2,963,172	2,812,950
Water Pik, Inc.	08/10/2017	Consumer Goods: Durable	6.75%	L+525	3,500,000	3,465,501	3,430,000
Yonkers Racing Corporation ^{(11),(6),(5)}	07/15/2016	Hotel, Gaming and Leisure	11.38%		4,000,000	4,355,966	4,080,000

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Total First Lien Secured Debt 94,975,314 91,363,126

Second Lien Secured

Debt 13.3%

Autoparts Holdings Limited	01/29/2018	Automotive	10.50%	L+900	1,000,000	995,000	985,000
Ernest Health, Inc. ⁽⁵⁾	05/13/2017	Healthcare and Pharmaceuticals	10.25%	L+850	4,000,000	3,942,406	3,940,000
Mood Media Corporation ^{(5),(7)}	11/06/2018	Media: Diversified and Production	10.25%	L+875	1,500,000	1,485,581	1,380,000
ROC Finance LLC and ROC							
Finance 1 Corp ⁽⁵⁾	09/01/2018	Hotel, Gaming and Leisure	12.13%		2,000,000	1,965,834	2,020,000
Sensus USA Inc. ⁽⁵⁾	05/09/2018	Utilities: Water	8.50%	L+725	1,000,000	990,624	960,000
Seven Seas Cruises ^{(11),(6),(7),(5)}	05/15/2019	Hotel, Gaming and Leisure	9.13%		3,000,000	3,000,000	2,970,000

Total Second Lien Secured Debt 12,379,445 12,255,000

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Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

September 30, 2011

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽¹⁾	Par/ Shares	Cost	Fair Value ⁽²⁾
Subordinated Debt/Corporate Notes 7.6%							
Affinion Group Holdings, Inc. ^{(5),(11)}	11/15/2015	Consumer Goods: Non-Durable	11.63%		1,500,000	\$ 1,524,891	\$ 1,155,000
TrustHouse Services Group, Inc. ^{(11),(7),(5)}	07/31/2018	Beverage, Food and Tobacco	14.00% ⁽⁸⁾		3,762,500	3,688,091	3,687,250
TrustHouse Services Group, Inc. ^{(11),(9),(5)}	07/31/2018	Beverage, Food and Tobacco			2,206,000	2,161,880	2,161,880
Total Subordinated Debt/Corporate Notes						7,374,862	7,004,130
Preferred Equity/Partnership Interests 0.1%^{(9),(10)}							
TrustHouse Services Holdings, LLC (TrustHouse Services Group, Inc.)		Beverage, Food and Tobacco	12.50%		158	\$ 95,000	\$ 96,985
Common Equity 0.0%⁽¹⁰⁾							
TrustHouse Services Holdings, LLC (TrustHouse Services Group, Inc.)		Beverage, Food and Tobacco			8	5,000	5,000
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						114,829,621	110,724,241
Cash Equivalents 7.6%						6,987,450	6,987,450
Total Investments and Cash Equivalents 127.8%						\$ 121,817,071	\$ 117,711,691
Liabilities in Excess of Other Assets (27.8%)							
Net Assets 100.0%							(25,639,586)
							\$ 92,072,105

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or Prime and its coupon is subject to a LIBOR or Prime rate floor.
- (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 deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a 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 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) The securities are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility.
- (6) 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.
- (7) Non-U.S. company or principal place of business outside the United States.
- (8) Coupon is payable in cash and/or through payment-in-kind, or PIK.
- (9) Represents the purchase of a security with delayed settlement (unfunded investment). This security does not have a basis point spread above an index.
- (10) Non-income producing securities.

(11) Coupon is not subject to a LIBOR or Prime rate floor.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 business development company, or BDC, under the 1940 Act.

Our investment objectives are to generate current income and capital appreciation. We seek to achieve our investment objective by investing primarily in Floating Rate Loans and other instruments made to U.S. middle-market private companies whose debt is rated below investment grade. Floating Rate Loans or variable-rate investments are loans that typically pay interest at variable rates, which are determined periodically, on the basis of a floating base lending rate such as LIBOR, plus a fixed spread over it. Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets, which means our net assets plus any borrowings for investment purposes, will be invested in Floating Rate Loans and other investments bearing a variable rate of interest, which may include, from time to time, variable rate derivative instruments. We generally expect that senior secured loans, or first lien loans, will represent at least 65% of our overall portfolio. We generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second-lien, high yield, mezzanine and distressed debt securities and, to a lesser extent, equity investments.

In April 2011, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol PFLT. Also in April 2011, we issued 6,700,000 shares of common stock, and in May 2011, the underwriters exercised their overallotment option and purchased an additional 150,000 shares of common stock, resulting in total gross proceeds of \$102.8 million. After deducting the underwriters' discount, or the sales load, of \$5.1 million, we received net proceeds of \$97.7 million from our initial public offering. The underwriters agreed to reimburse, and have paid us, \$0.4 million of the estimated \$1.0 million of offering expenses. In March 2011, we sold 667 shares of common stock for \$10,000 (\$15.00 per share) to the Investment Adviser.

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 all management fees owing with respect to such services are 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 five-year Credit Facility allows Funding I to borrow up to \$100.0 million at LIBOR plus 225 basis points during the revolving period. The Credit Facility is secured by all of the assets held by Funding I. See Note 10.

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 period. Actual results could differ from these estimates. We have reclassified certain prior period amounts to conform to the current period presentation. We have eliminated

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

all intercompany balances and transactions, if any. References to the Accounting Standards Codification, 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 and pursuant to the requirements for reporting on Form 10-K/Q and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

Our significant accounting policies consistently applied are as follows:

(a) *Investment Valuations*

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/dealers, if available, or otherwise from a principal market maker or a primary market dealer. 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. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

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, described in this Report, and a consistently applied valuation process. 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.

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

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 and responds 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.

(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 unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in our portfolio investments and Credit Facility values 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, market discount or premium are capitalized and then accreted or amortized using the effective interest method as interest income. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or if there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

(c) Income Taxes

Since March 2011, PennantPark Floating Rate Capital Ltd. has complied with the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code, and has elected to be treated as a regulated investment company, or RIC. As a result, PennantPark Floating Rate Capital Ltd. accounts for income taxes using the asset liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon our election to be subject to tax as a RIC, we do not anticipate paying any material level of federal income taxes in the future. We recognize in our Consolidated Financial Statements the effect of a tax position

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. We did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we expect to file federal and state tax returns, our major tax jurisdiction is federal. Our tax return for our federal tax year 2011 remain subject to examination by the Internal Revenue Service.

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

(d) Dividends, Distributions, and Capital Transactions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a dividend or distribution is determined by the board of directors each month and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually.

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

(e) Consolidation

As permitted under Regulation S-X and the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies, 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 Funding I in our Consolidated Financial Statements.

(f) Asset Transfers and Servicing

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

3. AGREEMENTS

The Investment Management Agreement with the Investment Adviser was approved by our board of directors, including a majority of our independent directors, in March 2011. Under this 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 all management fees owing with respect to such services are 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.

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2012**

The base management fee is calculated at an annual rate of 1.00% of our gross assets (net of U.S. Treasury Bills, temporary draws under any Credit Facility, 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, or average adjusted gross assets, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average value of our average adjusted gross total 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. Base management fees for any partial month or quarter are appropriately pro-rated. For the fiscal year ended September 30, 2012, and for the period March 4, 2011 (commencement of operations) to September 30, 2011, the Investment Adviser earned base management fees of \$1.5 million and \$0.4 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 commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense 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 original issue discount, 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 on 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), 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. The performance based incentive fee on net investment income due to our Investment Adviser as calculated under the Investment Management Agreement (as described above) for the year ended September 30, 2012 resulted in an accrual of \$0.3 million. For the period March 4, 2011 (commencement of operations) to September 30, 2011, the Investment Adviser earned no performance based incentive fee 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 commencement of operations 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, from our inception. The performance-based incentive fee on capital gains due to our Investment Adviser as calculated under the Investment Management Agreement (as described above) for the year ended September 30, 2012, and for the period March 4, 2011 (commencement of operations) to September 30, 2011, resulted in no accruals.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

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SEPTEMBER 30, 2012

Under U.S. generally accepted accounting principles, or 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 20.0% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. The performance based incentive fee on our unrealized and realized capital gains due to our Investment Adviser for the year ended September 30, 2012 resulted in an accrual of \$0.3 million. For the period March 4, 2011 (commencement of operations) to September 30, 2011, our unrealized and realized capital gains did not exceed our cumulative realized and unrealized losses and resulted in no accrual under GAAP.

We entered into the Administration Agreement with the Administrator which was approved by our board of directors, including a majority of the independent directors, in March 2011. Under this agreement, the Administrator provides administration services and office facilities to us. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under 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. The Administrator also offers, on our behalf, managerial assistance to portfolio companies to which we are required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statement of Operations. For the year ended September 30, 2012, the Investment Adviser and Administrator, collectively, were reimbursed approximately \$0.2 million, from us, including expenses incurred by the Investment Adviser on behalf of the Administrator, for the services described above. For the period March 4, 2011 (commencement of operations) to September 30, 2011, the Investment Adviser and Administrator, collectively, were reimbursed approximately \$0.1 million from us, including expenses it incurred on behalf of the Administrator, for services described above.

In connection with our initial public offering, the Investment Adviser paid to the underwriters 2% of the sales load, or \$2.1 million in the aggregate, with respect to the offering of shares of our common stock. We (and indirectly our stockholders) will be obligated to repay this amount (a) if during any four consecutive calendar quarter-periods ending on or after April 13, 2012 our Pre-Incentive Fee Net Investment Income equals or exceeds 1.75% (7.0% annualized) of our net assets at the beginning of such period (as adjusted for any issuances or repurchases of shares of our common stock) or (b) upon our liquidation. If one or more of these events does not occur on or before April 7, 2014, we will not be obligated to repay this amount. We will repay such amount to the Investment Adviser in cash, and the Investment Adviser has agreed to use such payment to purchase shares of our common stock in the secondary market. In connection with the sales load paid by the Investment Adviser more fully described above and based on actual returns as of September 30, 2012, as well as the likelihood of future activity that may generate additional returns, management determined that the 7.0% return on Pre-Incentive Fee Net Investment Income for four consecutive calendar quarter periods was probable. Accordingly, we recorded a liability for this \$2.1 million of accrued sales load charges. Management continues to assess performance to determine whether the 7.0% return on Pre-Incentive Fee Net Investment Income will continue to be probable.

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Purchases of long-term investments, including PIK, for the year ended September 30, 2012 totaled \$128.8 million. Sales and repayments of long-term investments for the year ended September 30, 2012 totaled \$71.5 million. Purchases of long-term investments, including PIK, for the period March 4, 2011 (commencement of operations) to September 30, 2011, totaled \$147.5 million. Sales and repayments for the same period totaled \$33.2 million.

Investments and cash equivalents consisted of the following:

Investment Classification	September 30, 2012		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 150,258,038	\$ 150,209,747	\$ 94,975,314	\$ 91,363,126
Second lien	11,608,643	12,025,500	12,379,445	12,255,000
Subordinated debt / corporate notes	9,194,181	8,296,719	7,374,862	7,004,130
Preferred and common equity	517,147	1,302,434	100,000	101,985
Total investments	171,578,009	171,834,400	114,829,621	110,724,241
Cash equivalents	3,845,803	3,845,803	6,987,450	6,987,450
Total investments and cash equivalents	\$ 175,423,812	\$ 175,680,203	\$ 121,817,071	\$ 117,711,691

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash equivalents) in such industries as of September 30:

Industry Classification	2012	2011
High Tech Industries	11%	4%
Business Services	10	10
Healthcare and Pharmaceuticals	8	10
Hotel, Gaming and Leisure	8	9
Beverage, Food and Tobacco	6	7
Chemicals, Plastics and Rubber	6	5
Consumer Goods: Non-Durable	6	4
Media: Diversified and Production	6	8
Media: Advertising, Printing and Publishing	5	10
Telecommunications	5	5
Consumer Goods: Durable	4	8
Consumer Services	3	2
Aerospace and Defense	2	3
Automotive	2	4
Construction and Building	2	
Containers, Packaging and Glass	2	3
Environmental Industries	2	2
Media: Broadcasting and Subscription	2	

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Metals and Mining	2	
Retail	2	
Wholesale	2	
Energy: Oil and Gas		2
All Other	4	4
Total	100%	100%

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.

Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.

Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

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

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

Our investments are generally structured as Floating Rate Loans, mainly senior secured loans, but also may include second lien, high yield, mezzanine and distressed debt securities and equity investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values. 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 using unobservable inputs are included in Level 3 of the fair value hierarchy.

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2012**

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the fiscal year ended September 30, 2012 and the period March 4, 2011 (commencement of operations) to September 30, 2011, our ability to observe valuation inputs has resulted in no reclassification of assets amongst Levels 1, 2 and 3.

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

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 was effective for interim and annual periods after December 15, 2011. The Company adopted ASU 2011-04 on December 31, 2011. In accordance with ASU 2011-04 and as outlined in the table below, 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, have no corroborating evidence and may be the result of consensus pricing. We do not adjust the bids.

The remainder of our portfolio, including our long-term Credit Facility, is classified and was 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 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. 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.

Asset Category	Fair Value as of September 30, 2012	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien, second lien, subordinated debt/corporate notes	\$ 155,983,312	Market Comparable	Broker/ Dealer bid quotes	1 6
First lien, second lien, subordinated debt/corporate notes	\$ 11,760,650	Market Comparable	Market Yield	7.3% 15.3% (11.9%)
Preferred and common equity	\$ 1,302,438	Enterprise Market Value	EBITDA multiple	6.5x 8.5x (6.8x)
Total Level 3 investments	169,046,400			
Long-Term Credit Facility	\$ 75,122,500	Market Comparable	Discount rate	3.1%

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2012**

Our cash equivalents, investments and our long-term Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes.

Description	Fair Value Measurements at September 30, 2012			
	Fair Value	Level 1	Level 2	Level 3
First lien	\$ 150,209,747	\$	\$	\$ 150,209,747
Second lien	12,025,500			12,025,500
Subordinated debt/corporate notes	8,296,719		2,788,000	5,508,719
Preferred and common equity	1,302,434			1,302,434
Total investments	171,834,400		2,788,000	169,046,400
Cash equivalents	3,845,803	3,845,803		
Total investments and cash equivalents	175,680,203	3,845,803	2,788,000	169,046,400
Long-Term Credit Facility	\$ 75,122,500	\$	\$	\$ 75,122,500

Description	Fair Value Measurements at September 30, 2011			
	Fair Value	Level 1	Level 2	Level 3
First lien	\$ 91,363,126	\$	\$ 2,033,747	\$ 89,329,379
Second lien	12,255,000			12,255,000
Subordinated debt/corporate notes	7,004,130		1,155,000	5,849,130
Preferred and common equity	101,985			101,985
Total investments	110,724,241		3,188,747	107,535,494
Cash equivalents	6,987,450	6,987,450		
Total investments and cash equivalents	117,711,691	6,987,450	3,188,747	107,535,494
Long-Term Credit Facility	\$ 24,650,000	\$	\$	\$ 24,650,000

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

Description	Year Ended September 30, 2012			Totals
	First Lien	Second lien, subordinated debt and equity investments ⁽¹⁾		
Beginning Balance, September 30, 2011	\$ 89,329,379	\$ 18,206,115		\$ 107,535,494
Realized gains	630,647	278,832		909,479

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Unrealized appreciation	3,543,311	1,422,002	4,965,313
Purchases, PIK and net discount accretion	114,967,516	7,945,929	122,913,445
Sales / repayments / exchanges	(58,261,106)	(9,016,225)	(67,277,331)
Transfers in and/or out of Level 3			
Ending Balance, September 30, 2012	\$ 150,209,747	\$ 18,836,653	\$ 169,046,400

Net change in unrealized appreciation for the year ended September 30, 2012 reported within the net change in unrealized appreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date.

\$ 4,140,166	\$	1,424,404	\$ 5,564,570
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September 30, 2011**

Description	Second lien, subordinated debt and equity investments		Totals
	First Lien		
Beginning Balance, March 4, 2011	\$	\$	\$
Realized gains	218,684	93,319	312,003
Unrealized appreciation	(3,591,606)	(123,301)	(3,714,907)
Purchases, PIK and net discount accretion	121,246,206	22,766,732	144,012,938
Sales / repayments	(28,543,905)	(4,530,635)	(33,074,540)
Transfers in and/or out of Level 3			
Ending Balance, September 30, 2011	\$ 89,329,379	\$ 18,206,115	\$ 107,535,494

Net change in unrealized appreciation (depreciation) for the period reported within the net change in unrealized depreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date.

\$ (3,591,606)	\$ (123,301)	\$ (3,714,907)
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The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3):

	Carrying / Fair Value	
	Year Ended September 30, 2012	For the period March 4, 2011 (commencement of operations) to September 30, 2011
Long-Term Credit Facility		
Beginning Balance, September 30, 2011 (cost \$24,650,000)	\$ 24,650,000	\$
Total unrealized depreciation included in earnings	(377,500)	
Borrowings	97,650,000	29,000,000
Repayments	(46,800,000)	(4,350,000)
Transfers in and/or out of Level 3		
Ending Balance, September 30, 2012 (cost \$75,500,000 and \$24,650,000, respectively)	\$ 75,122,500	\$ 24,650,000

We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our long-term Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred and expensed \$0.3 million relating to amendment fees on the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility are reported in our Consolidated Statement of Operations. For the year ended September 30, 2012 and for the period March 4, 2011 (commencement of operations to September 30, 2011), the Credit Facility

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had a net change in unrealized appreciation of approximately \$0.4 million and zero, respectively. As of September 30, 2012 and 2011, the

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2012**

Credit Facility had unrealized appreciation of \$0.4 million and zero, respectively. We use a nationally recognized independent valuation service to measure the fair value of the Credit Facility in a manner consistent with the valuation process that the board of directors uses to value investments.

6. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

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

Class and Year	Year Ended September 30, 2012	For the period March 4, 2011 (commencement of operations) to September 30, 2011 *
Numerator for net increase (decrease) in net assets resulting from operations	\$ 11,960,878	\$ (3,473,253)
Denominator for basic and diluted weighted average shares	6,850,667	6,826,105
Basic and diluted net increase (decrease) in net assets per share resulting from operations	\$ 1.75	\$ (0.51)

* Weighted average shares is based on the initial public offering issuance date of April 13, 2011.

7. CASH EQUIVALENTS

Cash equivalents represent cash pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of September 30, 2012 and 2011, cash equivalents consisted of \$3.8 million and \$7.0 million, respectively, including amounts in money market funds.

8. TAXES AND DISTRIBUTIONS

Dividends from net investment income and distributions from net realized capital gains are determined in accordance with U.S. federal tax regulations, which may materially differ from amounts determined in accordance with GAAP. These book-to-tax differences are either temporary or permanent in nature. To the extent these differences are permanent, they are reclassified to undistributed net investment income, accumulated net realized loss or paid-in-capital, as appropriate in the period that the difference arises.

As of September 30, 2012 and 2011, the cost of investments for federal income tax purposes was \$171.6 million and \$114.8 million, respectively, resulting in a gross unrealized appreciation of \$3.6 million and \$0.1 million, respectively, and depreciation of \$3.3 million and \$4.2 million, respectively.

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2012**

The following permanent differences were reclassified for tax purposes for the year ended September 30, 2012 and there were no reclassifications for the period March 4, 2011 (commencement of operations) to September 30, 2011:

	Year Ended September 30, 2012
Decrease in paid-in capital	\$ (3,952)
Increase in undistributed net investment income	\$ 3,952

The following reconciles net increase in net assets resulting from operations to taxable income:

	Year Ended September 30, 2012	March 4, 2011 (commencement of operations) to September 30, 2011
Net increase in net assets resulting from operations	\$ 11,960,878	\$ (3,473,253)
Net change in unrealized (depreciation) appreciation on investments and Credit Facility transactions not taxable	(4,739,272)	4,105,380
Other temporary book-to-tax differences	307,975	1,297,741
Other non deductible expenses	42,027	
Taxable net income before deductions for distribution	\$ 7,571,608	\$ 1,929,868

The components of accumulated surplus (deficit) on book basis and a reconciliation to accumulated surplus (deficit) on a tax basis are as follows:

	As of September 30, 2012	March 4, 2011 (commencement of operations) to September 30, 2011
Undistributed ordinary income	\$ 2,139,738	\$ 696,748
Dividends payable and other temporary differences	(2,228,826)	(1,777,288)
Net unrealized appreciation (depreciation) of investments and credit facility	633,891	(4,105,380)
Total accumulated surplus (deficit)	\$ 544,803	\$ (5,185,920)

In accordance with Section 19(a) under the 1940 Act, \$103,884 of the Company's distributions paid to stockholders during the fiscal year ended September 30, 2012 represent a distribution of long-term realized capital gains. The tax characteristics of dividends accrued are as follows:

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	Year Ended September 30, 2012	March 4, 2011 (commencement of operations) to September 30, 2011
Ordinary income	\$ 6,130,222	\$ 1,712,667
Long-Term capital gain	103,884	
Total distributions	\$ 6,234,106	\$ 1,712,667
Total distributions per share	\$ 0.91	\$ 0.25

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2012****9. FINANCIAL HIGHLIGHTS**

Our net assets and net asset value per share on September 30, 2012 and 2011 were \$95.7 million and \$13.98 per share and \$92.1 million and \$13.44 per share, respectively. Below are the financial highlights:

	Year Ended September 30, 2012	For the period from March 04, 2011 (commencement of operations) to September 30, 2011
Per Share Data⁽¹⁾:		
Net asset value, beginning of period	\$ 13.44	\$
Net investment income	0.92	0.05
Net change in realized and unrealized gain (loss)	0.83	(0.56)
Net increase (decrease) in net assets resulting from operations	1.75	(0.51)
Dividends to stockholders ⁽²⁾	(0.91)	(0.25)
Initial issuance of common stock		15.00
Offering costs	(0.30)	(0.80)
Net asset value, end of period	\$ 13.98	\$ 13.44
Per share market value, end of period	\$ 12.67	\$ 10.55
Total return* ⁽³⁾	29.43%	(28.13)%
Shares outstanding at end of period	6,850,667	6,850,667
Ratios / Supplemental Data*:		
Ratio of operating expenses to average net assets ⁽⁴⁾	4.20%	1.16%
Ratio of Credit Facility related interest and expenses to average net assets	1.89%	1.61%
Ratio of total expenses to average net assets	6.09%	2.77%
Ratio of net investment income to average net assets	6.64%	0.34%
Net assets at end of period	\$ 95,743,877	\$ 92,072,105
Average debt outstanding	\$ 46,133,607	\$ 7,550,877
Average debt per share	\$ 6.73	\$ 1.11
Portfolio turnover ratio	50.80%	37.53%

* Not annualized for period less than a year.

(1) Based on the weighted average shares outstanding for the period except for net asset value.

(2) Determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

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

⁽⁴⁾ Operating expenses exclude Credit Facility related costs.

10. CREDIT FACILITY

In May 2012, Funding I amended and restated its Credit Facility with affiliates of SunTrust Bank, or the Lender, to extend the maturity date to May 2017 and reinvestment period to May 2015 while increasing our investment flexibility under the Credit Facility. The Credit Facility allows Funding I to borrow up to \$100.0 million and contains an accordion feature whereby the Credit Facility can be expanded to \$600.0 million, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on us as a BDC. As of September 30, 2012 and September 30, 2011, Funding I had \$75.5 million and \$24.7 million of outstanding borrowings under the Credit Facility, and carried an interest rate of 2.47% and 2.53%, in each case excluding the 0.375% and 0.500% undrawn commitment fee, respectively.

During the three years beginning in May 2012, or the revolving period, the Credit Facility bears interest at LIBOR plus 225 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in May 2017. The Credit Facility is secured by all of the assets of Funding I. Both

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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, as amended, 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 (for example, fair value, as defined under ASC 820, is not permitted to be used for assets or liabilities for such compliance reporting).

We own 100% of the equity interest in Funding I and will treat the indebtedness of Funding I as our leverage. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility. As of September 30, 2012 and 2011, our asset coverage ratios were 227% and 474%, respectively.

Our interest in Funding I (other than the management fees) 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 Lender, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. The Investment Adviser has irrevocably directed that all management fees owing with respect to such services are to be paid to the Company so long as the Investment Adviser remains the collateral manager.

11. COMMITMENTS AND CONTINGENCIES

From time to time, PennantPark Floating Rate Capital Ltd., the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments in first lien secured debt and subordinated debt investments.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

PennantPark Floating Rate Capital Ltd. and its Subsidiary:

We have reviewed the accompanying consolidated statements of assets and liabilities of PennantPark Floating Rate Capital Ltd. and its Subsidiary (the Company), including the consolidated schedule of investments, as of December 31, 2012 and the consolidated statement of operations, changes in net assets, and cash flows for the three months ended December 31, 2012 and 2011. These consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities of PennantPark Floating Rate Capital Ltd. and its Subsidiary, including the consolidated schedule of investments, as of September 30, 2012 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 14, 2012, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

February 7, 2013

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	December 31, 2012 (unaudited)	September 30, 2012
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments, at fair value (cost \$180,898,304 and \$171,578,009, respectively)	\$ 180,795,910	\$ 171,834,400
Cash equivalents (See Note 7)	3,987,645	3,845,803
Interest receivable	1,089,228	1,388,867
Receivable for investments sold		986,278
Prepaid expenses and other assets	256,196	311,313
Total assets	186,128,979	178,366,661
Liabilities		
Distributions payable	565,180	548,053
Payable for investments purchased		3,357,500
Credit Facility payable (cost \$85,775,000 and \$75,500,000, respectively) (See Notes 5 and 9)	85,775,000	75,122,500
Interest payable on Credit Facility	162,800	161,550
Management fee payable (See Note 3)	458,986	424,747
Performance-based incentive fees payable (See Note 3)	713,068	506,314
Accrued other expenses	585,177	447,120
Accrued sales load charges (See Note 3)	2,055,000	2,055,000
Total liabilities	90,315,211	82,622,784
Net Assets		
Common stock, 6,850,667 shares are issued and outstanding. Par value \$0.001 per share and 100,000,000 shares authorized.	6,851	6,851
Paid-in capital in excess of par value	95,192,222	95,192,222
Distributions in excess of net investment income	(949,667)	(1,313,000)
Accumulated net realized gain on investments	1,666,756	1,223,913
Net unrealized (depreciation) appreciation on investments	(102,394)	256,391
Net unrealized depreciation on Credit Facility		377,500
Total net assets	\$ 95,813,768	\$ 95,743,877
Total liabilities and net assets	\$ 186,128,979	\$ 178,366,661
Net asset value per share	\$ 13.99	\$ 13.98

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended December 31,	
	2012	2011
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	\$ 3,638,227	\$ 2,467,028
Other income	324,446	
Total investment income	3,962,673	2,467,028
Expenses:		
Base management fees (See Note 3)	458,986	315,845
Performance-based incentive fees (See Note 3)	417,029	
Interest and expenses on the Credit Facility (See Note 9)	471,068	278,980
Administrative services expenses (See Note 3)	155,145	138,335
Other general and administrative expenses	367,500	358,969
Expenses before excise tax expense	1,869,728	1,092,129
Excise tax	34,072	
Total expenses	1,903,800	1,092,129
Net investment income	2,058,873	1,374,899
Realized and unrealized gain (loss) on investments and Credit Facility:		
Net realized gain on non-controlled, non-affiliated investments	442,843	310,175
Net change in unrealized (depreciation) appreciation on:		
Non-controlled, non-affiliated investments	(358,785)	1,069,091
Credit Facility (appreciation) depreciation (See Note 5)	(377,500)	351,000
Net change in unrealized (depreciation) appreciation on investments and Credit Facility	(736,285)	1,420,091
Net realized and unrealized (loss) gain from investments and Credit Facility	(293,442)	1,730,266
Net increase in net assets resulting from operations	\$ 1,765,431	\$ 3,105,165
Net increase in net assets resulting from operations per common share (See Note 6)	\$ 0.26	\$ 0.45
Net investment income per common share	\$ 0.30	\$ 0.20

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended December 31,	
	2012	2011
Net increase in net assets from operations:		
Net investment income	\$ 2,058,873	\$ 1,374,899
Net realized gain on investments	442,843	310,175
Net change in unrealized (depreciation) appreciation on investments	(358,785)	1,069,091
Net change in unrealized (appreciation) depreciation on Credit Facility	(377,500)	351,000
Net increase in net assets resulting from operations	1,765,431	3,105,165
Distributions to stockholders:		
Distributions	(1,695,540)	(1,438,640)
Net increase in net assets	69,891	1,666,525
Net Assets:		
Beginning of period	95,743,877	92,072,105
End of period	\$ 95,813,768	\$ 93,738,630
Distributions in excess of net investment income, end of period	\$ (949,667)	\$ (1,456,269)

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

	Three months ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 1,765,431	\$ 3,105,165
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in unrealized depreciation (appreciation) on investments	358,785	(1,069,091)
Net change in unrealized appreciation (depreciation) on Credit Facility	377,500	(351,000)
Net realized gain on investments	(442,843)	(310,175)
Net accretion of discount and amortization of premium	(236,560)	(145,347)
Purchase of investments	(38,911,333)	(39,340,500)
Payment-in-kind interest	(65,478)	(33,280)
Proceeds from dispositions of investments	30,335,919	22,294,290
Decrease (increase) in interest receivable	299,639	(98,571)
Decrease (increase) in receivables for investments sold	986,278	(5,455,000)
Decrease in prepaid expenses and other assets	55,117	65,396
(Decrease) increase in payables for investments purchased	(3,357,500)	9,613,630
Increase in interest payable on Credit Facility	1,250	128,735
Increase in management fee payable	34,239	49,413
Increase in performance-based incentive fee payable	206,754	
Increase in accrued expenses	138,057	208,817
Net cash used for operating activities	(8,454,745)	(11,337,518)
Cash flows from financing activities:		
Distributions paid to stockholders	(1,678,413)	(1,438,640)
Borrowings under Credit Facility (See Notes 5 and 9)	30,950,000	23,000,000
Repayments under Credit Facility (See Notes 5 and 9)	(20,675,000)	(12,550,000)
Net cash provided by financing activities	8,596,587	9,011,360
Net increase (decrease) in cash equivalents	141,842	(2,326,158)
Cash equivalents, beginning of period	3,845,803	6,987,450
Cash equivalents, end of period	\$ 3,987,645	\$ 4,661,292
Supplemental disclosure of cash flow information:		
Interest paid	\$ 469,788	\$ 150,246

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS****DECEMBER 31, 2012****(Unaudited)**

Issuer Name	Maturity	Industry	Coupon	Basis Point		Shares	Cost	Fair Value ⁽²⁾
				Current	Spread			
				Above	Par /			
				Index ⁽¹⁾				
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 188.7%^{(3),(4)}								
First Lien Secured Debt 164.0%								
ABB Con-Cise Optical Group LLC	10/24/2018	Wholesale	6.50%	L+525	1,700,000	\$ 1,683,400	\$ 1,712,750	
Airvana Network Solutions Inc.	03/25/2015	Telecommunications	10.00%	L+800	80,952	81,160	80,952	
ARC Auto Group, Inc.	11/15/2018	Automotive	6.25%	L+500	2,550,000	2,524,834	2,524,500	
Archipelago Learning, Inc.	05/17/2018	Media, Broadcasting and Subscription	7.50%	L+600	975,000	948,508	975,000	
Aspen Dental Management, Inc.	10/06/2016	Consumer Services	7.00%	L+550	2,970,000	2,930,861	2,799,225	
Attachmate Corporation	11/22/2017	High Tech Industries	7.25%	L+575	2,887,500	2,834,313	2,907,094	
Autoparts Holdings Limited	07/28/2017	Automotive	6.50%	L+500	987,500	983,597	988,117	
C.H.I. Overhead Doors, Inc.	08/17/2017	Consumer Goods: Durable	7.25%	L+575	3,846,594	3,785,671	3,853,006	
DCS Business Services, Inc.	03/19/2018	Business Services	7.25%	L+575	3,723,750	3,667,029	3,667,894	
Document Technologies, Inc.	12/01/2016	Business Services	6.50%	L+500	985,689	977,469	980,761	
DS Waters of America, Inc.	08/29/2017	Beverage, Food and Tobacco	10.50%	L+900	3,970,000	3,898,734	4,074,212	
EAG, Inc.	07/28/2017	Business Services	6.75%	P+350	925,363	921,658	920,736	
EIG Investors Corp.	11/11/2019	High Tech Industries	6.25%	L+500	2,000,000	1,980,369	2,000,000	
Emerald Performance Materials, LLC	05/18/2018	Chemicals, Plastics and Rubber	6.75%	L+550	2,488,748	2,468,631	2,494,970	
eResearchtechnology, Inc.	05/02/2018	Healthcare and Pharmaceuticals	8.00%	L+650	2,992,500	2,881,158	2,955,094	
Fishnet Security, Inc.	11/30/2017	High Tech Industries	7.75%	L+650	3,000,000	2,970,167	2,970,000	
GFA Brands, Inc.	07/02/2018	Beverage, Food and Tobacco	7.00%	L+575	1,945,000	1,909,110	1,964,450	
Graton Economic Development Authority ^{(5),(8)}	09/02/2019	Hotel, Gaming and Leisure	9.63%		3,000,000	3,000,000	3,213,750	
GSE Environmental, Inc. (f/k/aGundle/SLT Environmental, Inc.)	05/27/2016	Environmental Industries	7.00%	L+550	2,949,343	2,927,771	2,934,596	
Healogics, Inc.	11/30/2017	Healthcare and Pharmaceuticals	8.25%	L+675	4,950,000	4,735,663	4,956,187	
HMK Intermediate Holdings LLC	04/01/2019	Retail	7.25%	L+600	2,977,500	2,924,082	2,984,944	
Howard Berger Co. LLC	08/03/2017	Wholesale	7.00%	L+575	2,736,250	2,698,396	2,708,887	
IDQ Holdings, Inc. ^{(5),(8)}	03/30/2017	Automotive	11.50%		2,000,000	1,964,778	2,155,000	
Ikaria, Inc.	06/22/2016	Healthcare and Pharmaceuticals	7.75%	L+650	1,695,750	1,687,478	1,704,229	
InfuSystem Holdings, Inc.	11/30/2016	Healthcare and Pharmaceuticals	13.90%	P+625	2,175,000	2,175,000	2,180,297	

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Instant Web, Inc.	08/07/2014	Media: Advertising, Printing and Publishing	3.59% ⁽⁹⁾	L+338	6,836,508	6,574,255	5,247,020
Jackson Hewitt Tax Service Inc.	10/16/2017	Consumer Services	10.00%	L+850	3,400,000	3,269,730	3,272,500
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	P+675	5,474,773	5,509,569	5,420,025
KIK Custom Products Inc. ^{(6),(8)}	06/02/2014	Consumer Goods: Non-Durable	8.50%	L+700	4,925,000	4,846,902	4,826,500
Medpace Intermediateco, Inc.	06/19/2017	Business Services	6.50%	L+500	1,844,649	1,822,635	1,752,417
Milk Specialties Company	11/09/2018	Consumer Goods: Non-Durable	7.00%	L+475	3,400,000	3,366,959	3,383,000
MModal Inc.	08/16/2019	Business Services	6.75%	L+550	3,391,596	3,342,843	3,238,974
Mood Media Corporation ⁽⁶⁾	05/07/2018	Media: Diversified and Production	7.00%	L+550	2,366,529	2,347,524	2,358,837
MOSAID Technologies Incorporated ⁽⁶⁾	12/23/2016	High Tech Industries	8.50%	L+700	2,831,250	2,773,496	2,831,250
MX USA, INC.	05/01/2017	Healthcare and Pharmaceuticals	6.50%	L+525	2,977,500	2,938,674	2,977,500
NAB Holdings, LLC	04/24/2018	Banking, Finance, Insurance and Real Estate	7.00%	L+550	975,000	962,244	979,875
Northfield Park Associates LLC	12/19/2018	Hotel, Gaming and Leisure	9.00%	L+775	4,500,000	4,410,278	4,455,000
Pelican Products, Inc.	07/11/2018	Containers, Packaging and Glass	7.00%	L+550	1,492,500	1,464,991	1,462,650
Penton Media, Inc.	08/01/2014	Media: Diversified and Production	5.00%	L+400	5,497,273	5,005,505	4,833,021
			(PIK 1.00%)				
Premier Dental Services, Inc.	11/01/2018	Consumer Services	8.25%	L+700	3,400,000	3,299,842	3,298,000

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2012****(Unaudited)**

Issuer Name	Maturity	Industry	Coupon	Basis Point		Shares	Cost	Fair Value ⁽²⁾
				Current	Above Par /			
				Index ⁽¹⁾				
RiverBoat Corporation of Mississippi	11/29/2016	Hotel, Gaming and Leisure	10.00%	L+875	4,250,000	\$ 4,165,526	\$ 4,186,250	
Sabre Industries, Inc.	08/24/2018	Construction and Building	7.00%	L+575	3,000,000	2,957,148	3,004,821	
Securus Technologies, Inc.	05/31/2017	Telecommunications	6.50%	L+525	2,955,000	2,931,995	2,960,541	
Seven Seas Cruises S. DE R.L.	12/21/2018	Hotel, Gaming and Leisure	6.25%	L+500	1,481,250	1,467,035	1,496,062	
Sotera Defense Solutions, Inc.	04/21/2017	Aerospace and Defense	7.50%	L+600	2,780,743	2,760,235	2,739,032	
St. George's University								
Scholastic Services LLC	12/20/2017	Consumer Services	8.50%	L+700	2,550,000	2,499,043	2,508,562	
Tekelec Global, Inc.	01/29/2018	Telecommunications	13.50%	L+1,200	1,875,000	1,825,500	1,912,500	
UniTek Global Services, Inc.	04/16/2018	Telecommunications	9.00%	L+750	1,990,000	1,932,949	1,945,225	
Univita Health Inc.	06/19/2017	Consumer Services	6.25%	L+475	2,955,000	2,932,445	2,858,962	
Valitas Health Services, Inc.	06/02/2017	Healthcare and Pharmaceuticals	5.75%	L+450	1,477,500	1,471,641	1,451,644	
Vantage Specialties, Inc.	02/09/2018	Chemicals, Plastics and Rubber	7.00%	L+550	2,977,500	2,925,526	2,992,388	
Viamedia Services Corp.	04/19/2016	Media: Advertising, Printing and Publishing	7.00%	L+550	4,031,333	3,995,934	4,031,334	
Virtual Radiologic Corporation	12/22/2016	Business Services	7.75%	P+450	2,955,000	2,927,746	2,541,300	
W3 CO.	10/31/2017	Energy: Oil and Gas	7.50%	L+625	1,980,000	1,913,327	1,977,525	
Water Pik, Inc.	08/10/2017	Consumer Goods: Durable	6.75%	L+525	3,447,500	3,418,540	3,430,263	
Wilton Brands, LLC	08/30/2018	Consumer Goods: Non-Durable	7.50%	L+625	3,357,500	3,293,647	3,374,288	
Z Wireless	12/21/2016	Retail	12.50% (PIK 1.50%)	L+1,225	2,700,000	2,646,083	2,700,000	
Total First Lien Secured Debt						157,559,604	157,153,917	
Second Lien Secured Debt 11.0%								
American Gilsonite Company ^{(5),(8)}	09/01/2017	Metals and Mining	11.50%		3,000,000	3,000,000	3,090,000	
Autoparts Holdings Limited	01/29/2018	Automotive	10.50%	L+900	1,000,000	995,566	950,000	
Cannery Casino Resorts, LLC ⁽⁸⁾	10/02/2019	Hotel, Gaming and Leisure	10.00%	L+875	1,700,000	1,667,338	1,606,500	
ROC Finance LLC and ROC Finance 1 Corp ^{(5),(8)}	09/01/2018	Hotel, Gaming and Leisure	12.13%		2,000,000	1,970,677	2,310,000	
Sensus USA Inc.	05/09/2018	Utilities: Water	8.50%	L+725	1,000,000	992,061	1,000,000	
Seven Seas Cruises ^{(5),(6),(8)}	05/15/2019	Hotel, Gaming and Leisure	9.13%		1,500,000	1,500,000	1,586,250	
Total Second Lien Secured Debt						10,125,642	10,542,750	
Subordinated Debt/Corporate Notes 12.1%								
Affinion Group Holdings, Inc.	11/15/2015	Consumer Goods: Non-Durable	11.63%		4,100,000	3,798,673	2,644,501	
Document Technologies, Inc.	12/01/2017	Business Services	13.00%		1,000,000	980,340	1,007,500	

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****DECEMBER 31, 2012****(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point		Cost	Fair Value ⁽²⁾
				Above	Par /		
				Index ⁽¹⁾	Shares		
TrustHouse Services Group, Inc.	06/03/2019	Beverage, Food and Tobacco	14.25% (PIK 2.25%)		4,560,151	4,483,524	4,560,151
Vestcom International, Inc. ⁽⁸⁾	06/27/2019	Media: Advertising, Printing and Publishing	12.00%		3,333,333	3,266,707	3,333,333
Total Subordinated Debt/Corporate Notes Preferred						12,529,244	11,545,485
Equity/Partnership Interests 0.2%⁽⁸⁾							
TrustHouse Services Holdings, LLC (TrustHouse Services Group, Inc.)		Beverage, Food and Tobacco	12.50%		176	110,697	194,585
Common Equity/Partnership Interests 1.4%⁽⁸⁾							
Titan Private Holdings I, LLC (Tekelec Global, Inc.)		Telecommunications			401,797	401,450	1,118,935
TrustHouse Services Holdings, LLC (TrustHouse Services Group, Inc.)		Beverage, Food and Tobacco			8	5,000	10,571
Vestcom Parent Holdings, Inc. (Vestcom International, Inc.)		Media: Advertising, Printing and Publishing			15,179	166,667	166,667
Total Common Equity						573,117	1,359,173
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						180,898,304	180,795,910
Cash Equivalents 4.2%						3,987,645	3,987,645
Total Investments and Cash Equivalents 192.9%						184,885,949	\$ 184,783,555
Liabilities in Excess of Other Assets (92.9)%							(88,969,787)
Net Assets 100.0%							\$ 95,813,768

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or L, or Prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted.
- (2) Valued based on our accounting policy (see Note 2).
- (3) The provisions of the Investment Company Act of 1940, as amended, or 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 deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a 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 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 are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility.
- (9) Coupon is not subject to a LIBOR or Prime rate floor.

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index ⁽¹⁾	Par/Shares	Cost	Fair Value ⁽²⁾
Investments in Non-Controlled, Non-Affiliated Portfolio Companies 179.5%^{(3),(4)}							
First Lien Secured Debt 156.9%							
Airvana Network Solutions Inc.	03/25/2015	Telecommunications	10.00%	L+800	214,286	\$ 214,838	\$ 214,018
Archipelago Learning, Inc.	05/17/2018	Media, Broadcasting and Subscription	7.50%	L+600	987,500	959,574	987,500
Aspen Dental Management, Inc.	10/06/2016	Consumer Services	7.00%	L+550	2,977,500	2,937,079	2,962,613
Attachmate Corporation	11/22/2017	High Tech Industries	7.25%	L+575	2,943,750	2,888,381	2,960,309
Autoparts Holdings Limited	07/28/2017	Automotive	6.50%	L+500	990,000	985,747	987,525
Blue Coat Systems, Inc.	02/15/2018	High Tech Industries	7.50%	L+600	3,975,000	3,902,979	4,014,750
C.H.I. Overhead Doors, Inc.	08/17/2017	Consumer Goods: Durable	7.25%	L+575	3,866,119	3,801,408	3,859,675
DCS Business Services, Inc.	03/19/2018	Business Services	7.25%	L+575	3,733,125	3,673,063	3,677,128
Document Technologies, Inc.	12/01/2016	Business Services	6.50%	L+500	990,000	981,827	987,525
DS Waters of America, Inc.	08/29/2017	Beverage, Food and Tobacco	10.50%	L+900	3,980,000	3,904,846	4,109,350
EAG, Inc.	07/28/2017	Business Services	6.75%	P+350	950,104	946,081	945,353
EIG Investors Corp.	04/20/2018	High Tech Industries	7.75%	L+625	3,990,000	3,952,867	4,009,950
Emerald Performance Materials, LLC	05/18/2018	Chemicals, Plastics and Rubber	6.75%	L+550	1,995,000	1,975,762	2,004,975
eResearchtechnology, Inc.	05/02/2018	Healthcare and Pharmaceuticals	8.00%	L+650	3,000,000	2,884,003	2,962,500
Fundtech (US FT HOLDCO, INC.)	11/30/2017	Business Services	7.50%	L+600	2,977,500	2,898,672	2,977,500
GFA Brands, Inc.	07/02/2018	Beverage, Food and Tobacco	7.00%	L+575	1,995,000	1,956,496	2,012,456
Graton Economic Development Authority ^{(5),(8)}	09/02/2019	Hotel, Gaming and Leisure	9.63%		3,000,000	3,000,000	3,120,000
Gundle/SLT Environmental, Inc.	05/27/2016	Environmental Industries	7.00%	L+550	2,956,829	2,933,351	2,934,653
Healogics, Inc. (f/k/a National Healing Corp.)	11/30/2017	Healthcare and Pharmaceuticals	8.25%	L+675	4,962,500	4,742,008	4,925,281
HMK Intermediate Holdings LLC	04/01/2019	Retail	7.25%	L+600	2,985,000	2,929,228	2,992,463
Howard Berger Co. LLC	08/03/2017	Wholesale	7.00%	L+575	2,743,125	2,702,953	2,715,694
IDQ Holdings, Inc. ^{(5),(8)}	03/30/2017	Automotive	11.50%		2,000,000	1,963,159	2,125,000
Ikaria, Inc.	06/22/2016	Healthcare and Pharmaceuticals	7.75%	L+650	1,700,000	1,691,500	1,649,000
Instant Web, Inc.	08/07/2014	Media: Advertising, Printing and Publishing	3.59% ⁽⁹⁾	L+338	6,836,508	6,534,349	5,247,020
K2 Pure Solutions NoCal, L.P.	09/10/2015	Chemicals, Plastics and Rubber	10.00%	L+775	5,476,250	5,512,699	5,558,394
KIK Custom Products Inc. ^{(6),(8)}	06/02/2014	Consumer Goods: Non-Durable	8.50%	L+700	4,937,500	4,845,282	4,863,438
Medpace Intermediateco, Inc.	06/19/2017	Business Services	6.50%	L+500	1,844,649	1,821,373	1,766,252
MModal Inc.	08/16/2019	Business Services	6.75%	L+550	3,400,000	3,349,374	3,351,125
Mood Media Corporation ⁽⁶⁾	05/07/2018	Media: Diversified and Production	7.00%	L+550	3,950,000	3,916,596	3,921,611
MOSAID Technologies Incorporated ⁽⁶⁾	12/23/2016	High Tech Industries	8.50%	L+700	2,887,500	2,826,368	2,887,500
MX USA, INC and KAN-DI-KI, LLC	05/01/2017	Healthcare and Pharmaceuticals	6.50%	L+525	2,985,000	2,943,607	2,955,150
NAB Holdings, LLC	04/24/2018	Banking, Finance, Insurance and Real Estate	7.00%	L+550	987,500	973,817	997,375
Pelican Products, Inc.	07/11/2018	Containers, Packaging and Glass	7.00%	L+550	1,496,250	1,467,389	1,492,509
			5.00%				
Penton Media, Inc.	08/01/2014	Media: Diversified and Production	(PIK 1.00%)	L+400	5,497,407	4,931,995	4,439,156
Potter s Holdings II, L.P.	05/08/2017	Containers, Packaging and Glass	6.00%	L+450	1,975,000	1,958,715	1,967,594
Pro Mach, Inc.	07/06/2017	Capital Equipment	6.25%	L+475	978,077	970,036	967,889

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Renaissance Learning, Inc.	10/19/2017	Media: Broadcasting and	7.75%	L+625	1,980,000	1,909,788	1,994,850
Subscription							
Rocket Software, Inc.	02/08/2018	High Tech Industries	7.00%	L+550	3,970,000	3,898,141	3,970,000
Sabre Industries, Inc.	08/24/2018	Construction and Building	7.00%	L+575	3,000,000	2,955,509	2,973,126
Securus Technologies, Inc.	05/31/2017	Telecommunications	6.50%	L+525	2,962,500	2,938,182	2,960,648
Seven Seas Cruises S. DE R.L.	12/21/2018	Hotel, Gaming and Leisure	6.25%	L+500	1,500,000	1,485,300	1,505,625

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****SEPTEMBER 30, 2012**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index⁽¹⁾	Par/Shares	Cost	Fair Value⁽²⁾
Sotera Defense Solutions, Inc.	04/21/2017	Aerospace and Defense	7.00%	L+550	2,962,512	\$ 2,939,052	\$ 2,932,887
Tekelec Global, Inc. (First Out)	01/29/2018	Telecommunications	9.00%	L+750	150,000	147,935	150,000
Tekelec Global, Inc. (Second Out)	01/29/2018	Telecommunications	13.50%	L+1,200	1,875,000	1,823,914	1,914,375
Triple Point Technology, Inc.	10/27/2017	High Tech Industries	8.00%	L+650	992,500	958,036	992,500
UniTek Global Services, Inc.	04/16/2018	Telecommunications	9.00%	L+750	1,995,000	1,935,550	1,950,113
Univita Health Inc.	06/19/2017	Consumer Services	6.25%	L+475	2,962,500	2,938,318	2,844,000
Valitas Health Services, Inc.	06/02/2017	Healthcare and Pharmaceuticals	5.75%	L+450	1,481,250	1,474,945	1,466,438
Vantage Specialties, Inc.	02/09/2018	Chemicals, Plastics and Rubber	7.00%	L+550	2,985,000	2,930,559	2,999,925
Viamedia Services Corp.	04/19/2016	Media: Advertising, Printing and Publishing	7.00%	L+550	4,187,556	4,147,483	4,187,556
Virtual Radiologic Corporation	12/22/2016	Business Services	7.75%	P+450	2,970,000	2,940,842	2,643,300
W3 CO.	10/31/2017	Energy: Oil and Gas	7.50%	L+625	1,985,000	1,916,035	1,982,519
Water Pik, Inc.	08/10/2017	Consumer Goods: Durable	6.75%	L+525	3,465,000	3,434,281	3,456,338
WCA Waste Corporation	03/23/2018	Environmental Industries	5.50%	L+425	995,000	985,787	998,316
Wilton Brands, LLC	08/30/2018	Consumer Goods: Non-Durable	7.50%	L+625	3,400,000	3,332,763	3,417,000
Yonkers Racing Corporation ^{(5),(8)}	07/15/2016	Hotel, Gaming and Leisure	11.38%		4,000,000	4,288,196	4,320,000
Total First Lien Secured Debt						150,258,038	150,209,747
Second Lien Secured Debt 12.6%							
American Gilsonite Company ^{(5),(8)}	09/01/2017	Metals and Mining	11.50%		3,000,000	3,000,000	3,082,500
Autoparts Holdings Limited	01/29/2018	Automotive	10.50%	L+900	1,000,000	995,180	900,000
Cannery Casino Resorts, LLC ⁽⁸⁾	10/02/2019	Hotel, Gaming and Leisure	10.00%	L+875	1,700,000	1,666,000	1,691,500
Mood Media Corporation ⁽⁶⁾	11/06/2018	Media: Diversified and Production	10.25%	L+875	1,500,000	1,486,780	1,475,250
ROC Finance LLC and ROC Finance 1 Corp ^{(5),(8)}	09/01/2018	Hotel, Gaming and Leisure	12.13%		2,000,000	1,969,103	2,320,000
Sensus USA Inc.	05/09/2018	Utilities: Water	8.50%	L+725	1,000,000	991,580	996,250
Seven Seas Cruises ^{(5),(6),(8)}	05/15/2019	Hotel, Gaming and Leisure	9.13%		1,500,000	1,500,000	1,560,000
Total Second Lien Secured Debt						11,608,643	12,025,500
Subordinated Debt/Corporate Notes 8.7%							
Affinion Group Holdings, Inc.	11/15/2015	Consumer Goods: Non-Durable	11.63%		4,100,000	3,782,015	2,788,000
Document Technologies, Inc.	12/01/2017	Business Services	13.00%		1,000,000	980,074	1,000,000
			14.25%				
TrustHouse Services Group, Inc.	06/03/2019	Beverage, Food and Tobacco	(PIK 2.25%)		4,508,719	4,432,092	4,508,719
Total Subordinated Debt/Corporate Notes						9,194,181	8,296,719

**Preferred Equity/Partnership
Interests 0.2%^{(7),(8)}**
TrustHouse Services Holdings,
LLC
(TrustHouse Services Group,
Inc.)

Beverage, Food and Tobacco	12.50%	176	110,697	200,571
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Issuer Name	Maturity	Industry	Basis Point Spread		Par/ Shares	Cost	Fair Value ⁽²⁾
			Current Coupon Index ⁽¹⁾	Above			
Common Equity/Partnership Interests 1.1%⁽⁸⁾							
Titan Private Holdings I, LLC (Tekelec Global, Inc.)		Telecommunications			401,797	\$ 401,450	\$ 1,091,018
TrustHouse Services Holdings, LLC (TrustHouse Services Group, Inc.)		Beverage, Food and Tobacco			8	5,000	10,845
Total Common Equity						406,450	1,101,863
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						171,578,009	171,834,400
Cash Equivalents 4.0%						3,845,803	3,845,803
Total Investments and Cash Equivalents 183.5%						\$ 175,423,812	\$ 175,680,203
Liabilities in Excess of Other Assets (83.5)%							(79,936,326)
Net Assets 100.0%							\$ 95,743,877

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or L, or prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted.
- (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 deemed as non-controlled when we own less than 25% of a portfolio company's voting securities and controlled when we own 25% or more of a 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 deemed as non-affiliated when we own less than 5% of a portfolio company's voting securities and affiliated when we own 5% or more of a portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-U.S. company or principal place of business outside the United States.
- (7) Non-income producing securities.
- (8) The securities are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility.
- (9) Coupon is not subject to a LIBOR or Prime rate floor.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(Unaudited)

1. ORGANIZATION

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

Our investment objectives are to generate current income and capital appreciation. We seek to achieve our investment objective by investing primarily in Floating Rate Loans and other instruments made to U.S. middle-market private companies whose debt is rated below investment grade. Floating Rate Loans or variable-rate investments are loans that typically pay interest at variable rates, which are determined periodically, on the basis of a floating base lending rate such as LIBOR, plus a fixed spread over it. Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets, which means our net assets plus any borrowings for investment purposes, will be invested in Floating Rate Loans and other investments bearing a variable rate of interest, which may include, from time to time, variable rate derivative instruments. We generally expect that senior secured loans, or first lien loans, will represent at least 65% of our overall portfolio. We generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second lien, high yield, mezzanine and distressed debt securities and, to a lesser extent, equity investments.

In April 2011, we closed our initial public offering and our common stock trades on the NASDAQ Global Select Market under the symbol PFLT. In connection with our April 2011 initial public offering, we issued 6,850,000 shares of common stock, for gross proceeds of \$102.8 million, or \$97.7 million after deducting the sales load and underwriting expenses. The underwriters agreed to reimburse, and have paid us, \$0.4 million of the estimated \$1.0 million of offering expenses. In March 2011, we sold 667 shares of common stock for \$10,000 (\$15.00 per share) to the Investment Adviser. See Note 3.

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 all management fees owing with respect to such services are 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 five-year Credit Facility allows Funding I to borrow up to \$100.0 million at LIBOR plus 225 basis points during the revolving period. The Credit Facility is secured by all of the assets held by Funding I. See Note 9.

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. Actual results could differ from these estimates. We reclassified certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions, if any. References to the Accounting Standards Codification, 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.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

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(Unaudited)

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

Our significant accounting policies consistently applied are as follows:

(a) Investment Valuations

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/dealers, if available, or otherwise from a principal market maker or a primary market dealer. 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. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

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, described in this Report, and a consistently applied valuation process. 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.

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;

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

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(Unaudited)

- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms and responds 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.

(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 unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair value of our portfolio investments and Credit Facility during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

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 payment-in-kind, or 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, market discount or premium are capitalized and then accreted or amortized using the effective interest method as interest income. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or if there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

(c) Income Taxes

We have complied with the requirements of Subchapter M of the Code and expect to be subject to tax as a RIC. As a result, we account for income taxes using the asset liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon PennantPark Floating Rate Capital Ltd.'s qualification and election to be subject to tax as a RIC, we do not anticipate paying any material level of federal income taxes in the future. Although we are not subject to tax as a RIC, we have elected to retain a portion of our calendar year income and pay an excise tax of less than \$0.1 million for the three months ended December 31, 2012.

PennantPark Floating Rate Capital Ltd. recognizes in its Consolidated Financial Statements the effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. We did not have any uncertain tax positions that met the recognition or measurement criteria of

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

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(Unaudited)

ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our tax return for our federal tax year 2011 remains subject to examination by the Internal Revenue Service and the state department of revenue.

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

(d) Dividends, Distributions, and Capital Transactions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a dividend or 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.

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

(e) Consolidation

As permitted under Regulation S-X and as explained by ASC 946-810-45, Financial Services Investment Companies Consolidation, 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 Funding I in our Consolidated Financial Statements.

(f) Asset Transfers and Servicing

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

3. AGREEMENTS

The Investment Management Agreement with the Investment Adviser was re-approved by our board of directors, including a majority of our independent directors, in February 2013. Under this 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 all management fees owing with respect to such services are 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.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

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The base management fee is calculated at an annual rate of 1.00% of our gross assets (net of U.S. Treasury Bills, temporary draws under any Credit Facility, 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, or average adjusted gross assets, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average value of our 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. Base management fees for any partial month or quarter are appropriately pro-rated. For the three months ended December 31, 2012 and 2011, the Investment Adviser earned base management fees of \$0.5 million and \$0.3 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 commitment, origination, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense 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 original issue discount, 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 on 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), 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. For the three months ended December 31, 2012 and 2011, the Investment Adviser earned a performance based incentive fee on net investment income as calculated under the Investment Management Agreement of \$0.4 million and zero, respectively.

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 commencement of operations 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, from our inception. For the three months ended December 31, 2012 and 2011, the Investment Adviser did not earn a performance based incentive fee on capital gains as calculated under the Investment Management Agreement.

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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 20.0% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For the three months ended December 31, 2012 and 2011, the Investment Adviser earned a performance based incentive fee on unrealized and realized capital gains as calculated under GAAP of less than \$0.1 million and zero, respectively.

The Administration Agreement with the Administrator was re-approved by our board of directors, including a majority of the independent directors, in February 2013. Under this agreement, the Administrator provides administration services and office facilities to us. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under 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. The Administrator also offers, on our behalf, managerial assistance to portfolio companies to which we are required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statement of Operations. For the three months ended December 31, 2012 and 2011, the Investment Adviser was reimbursed approximately \$0.1 million and \$0.1 million, respectively, from us, including expenses it incurred on behalf of the Administrator, for services described above.

In connection with our initial public offering, the Investment Adviser paid to the underwriters 2% of the sales load, or approximately \$2.1 million in the aggregate, with respect to the offering of shares of our common stock. We (and indirectly our stockholders) agreed to repay this amount (a) if during any four consecutive calendar quarter-periods ending on or after April 13, 2012 our Pre-Incentive Fee Net Investment Income equals or exceeds 1.75% (7.0% annualized) of our net assets at the beginning of such period (as adjusted for any issuances or repurchases of shares of our common stock) or (b) upon our liquidation. Based on actual returns through December 31, 2012, we met the conditions for repayment of the sales load. The Investment Adviser will be repaid approximately \$2.1 million.

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Purchases of long-term investments, including PIK, for the three months ended December 31, 2012 and 2011 totaled \$38.9 million and \$39.4 million, respectively. Sales and repayments of long-term investments for the three months ended December 31, 2012 and 2011 totaled \$30.3 million and \$22.3 million, respectively.

Investments and cash equivalents consisted of the following:

Investment Classification	December 31, 2012		September 30, 2012	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 157,559,604	\$ 157,153,917	\$ 150,258,038	\$ 150,209,747
Second lien	10,125,642	10,542,750	11,608,643	12,025,500
Subordinated debt / corporate notes	12,529,244	11,545,485	9,194,181	8,296,719
Preferred and common equity	683,814	1,553,758	517,147	1,302,434
Total investments	180,898,304	180,795,910	171,578,009	171,834,400
Cash equivalents	3,987,645	3,987,645	3,845,803	3,845,803
Total investments and cash equivalents	\$ 184,885,949	\$ 184,783,555	\$ 175,423,812	\$ 175,680,203

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

Industry Classification	As of	
	December 31, 2012	September 30, 2012
Hotel, Gaming and Leisure	10%	8%
Healthcare and Pharmaceuticals	9	8
Business Services	8	10
Consumer Goods: Non-Durable	8	6
Consumer Services	8	3
Media: Advertising, Printing and Publishing	7	5
Beverage, Food and Tobacco	6	6
Chemicals, Plastics and Rubber	6	6
High Tech Industries	6	11
Automotive	4	2
Consumer Goods: Durable	4	4
Media: Diversified and Production	4	6
Telecommunications	4	5
Retail	3	2

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Aerospace and Defense	2	2
Construction and Building	2	2
Environmental Industries	2	2
Metals and Mining	2	2
Wholesale	2	2
Containers, Packaging and Glass	1	2
Media: Broadcasting and Subscription	1	2
All Other	1	4
Total	100%	100%

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

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(Unaudited)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.

Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.

Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

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

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

Our investments are generally structured as Floating Rate Loans, mainly senior secured loans, but also may include second lien, high yield, mezzanine and distressed debt securities and equity investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. When evidence supports a subsequent change to the carrying value from the original transaction price, adjustments are made to reflect the expected exit values. 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 using unobservable inputs are included in Level 3 of the fair value hierarchy.

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****(Unaudited)**

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the three months ended December 31, 2012, our ability to observe valuation inputs resulted in reclassification of assets from Level 3 to 2 and we had no other transfers between levels. This compares to the three months ended December 31, 2011, which resulted in no reclassification of assets from Levels 1, 2 or 3.

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

Under Accounting Standards Update No. 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS and as outlined in the table below, 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, have no corroborating evidence and may be the result of consensus pricing. We do not adjust the bids.

The remainder of our portfolio, including our long-term Credit Facility, is classified and 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.

Asset Category	Fair Value as of December 31, 2012	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien, second lien, subordinated debt/corporate notes	\$ 161,319,619	Market Comparable	Broker/ Dealer bid quotes	1 - 7
First lien, second lien, subordinated debt/corporate notes	13,691,782	Market Comparable	Market Yield	7.3% - 15.3% (12.1%)
Preferred and common equity	1,553,758	Enterprise Market Value	EBITDA multiple	6.0x - 8.5x (6.4x)
Total Level 3 investments	176,565,159			
Long-Term Credit Facility	\$ 85,775,000	Market Comparable	Discount rate	3.0%

Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****(Unaudited)**

Our cash equivalents, investments and our long-term Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes.

Description	Fair Value Measurements at December 31, 2012			
	Fair Value	Level 1	Level 2	Level 3
First lien	\$ 157,153,917	\$	\$	\$ 157,153,917
Second lien	10,542,750		1,586,250	8,956,500
Subordinated debt/corporate notes	11,545,485		2,644,501	8,900,984
Preferred and common equity	1,553,758			1,553,758
Total investments	180,795,910		4,230,751	176,565,159
Cash equivalents	3,987,645	3,987,645		
Total investments and cash equivalents	184,783,555	3,987,645	4,230,751	176,565,159
Long-Term Credit Facility	\$ 85,775,000	\$	\$	\$ 85,775,000

Description	Fair Value Measurements at September 30, 2012			
	Fair Value	Level 1	Level 2	Level 3
First lien	\$ 150,209,747	\$	\$	\$ 150,209,747
Second lien	12,025,500			12,025,500
Subordinated debt/corporate notes	8,296,719		2,788,000	5,508,719
Preferred and common equity	1,302,434			1,302,434
Total investments	171,834,400		2,788,000	169,046,400
Cash equivalents	3,845,803	3,845,803		
Total investments and cash equivalents	175,680,203	3,845,803	2,788,000	169,046,400
Long-Term Credit Facility	\$ 75,122,500	\$	\$	\$ 75,122,500

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

Description	Three Months Ended December 31, 2012		
	First Lien	Second lien, subordinated debt	Totals

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		and equity investments	
Beginning Balance, September 30, 2012	\$ 150,209,747	\$ 18,836,653	\$ 169,046,400
Realized gains	429,535	13,308	442,843
Unrealized (depreciation) appreciation	(357,390)	158,764	(198,626)
Purchases, PIK and net discount accretion	35,707,944	3,488,767	39,196,711
Sales / repayments / exchanges	(28,835,919)	(1,500,000)	(30,335,919)
Transfers in and/or out of Level 3		(1,586,250)	(1,586,250)
Ending Balance, December 31, 2012	\$ 157,153,917	\$ 19,411,242	\$ 176,565,159
Net change in unrealized appreciation (depreciation) reported within the net change in unrealized appreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date.	\$ 126,018	\$ (2,677,717)	\$ (2,551,699)

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Description	Three Months Ended December 31, 2011		
	First Lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance, September 30, 2011	\$ 89,329,379	\$ 18,206,115	\$ 107,535,494
Realized gains	308,511		308,511
Unrealized appreciation	741,940	283,619	1,025,559
Purchases, PIK and net discount accretion	36,280,783	1,023,071	37,303,854
Sales / repayments	(22,240,498)		(22,240,498)
Transfers in and/or out of Level 3			
Ending Balance, December 31, 2011	\$ 104,420,115	\$ 19,512,805	\$ 123,932,920
Net change in unrealized appreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statement of Operations attributable to our Level 3 assets still held at the reporting date.	\$ 851,376	\$ 283,619	\$ 1,134,995

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

Long-Term Credit Facility	Carrying/Fair Value Three Months Ended December 31,	
	2012	2011
Beginning Balance, September 30, (cost \$75,500,000 and \$24,650,000, respectively)	\$ 75,122,500	\$ 24,650,000
Total unrealized appreciation (depreciation) included in earnings	377,500	(351,000)
Borrowings	30,950,000	23,000,000
Repayments	(20,675,000)	(12,550,000)
Transfers in and/or out of Level 3		
Ending Balance, December 31, (cost \$85,775,000 and \$35,100,000, respectively)	\$ 85,775,000	\$ 34,749,000

We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our long-term Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. 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 Statement of Assets and Liabilities and changes in fair value of the Credit Facility are reported in our Consolidated Statement of Operations. For the three months ended December 31, 2012 and 2011, we had a net change in unrealized (appreciation) depreciation of \$(0.4) million and \$0.4 million, respectively. As of December 31, 2012 and September 30, 2012, the Credit Facility had unrealized depreciation of zero and \$0.4 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of the Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments.

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Table of Contents**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****(Unaudited)****6. 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.

Class and Year	Three Months Ended December 31,	
	2012	2011
Numerator for net increase in net assets resulting from operations	\$ 1,765,431	\$ 3,105,165
Denominator for basic and diluted weighted average shares	6,850,667	6,850,667
Basic and diluted net increase in net assets per share resulting from operations	\$ 0.26	\$ 0.45

7. CASH EQUIVALENTS

Cash equivalents represent cash pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of December 31, 2012 and September 30, 2012, cash equivalents consisted of \$4.0 million and \$3.8 million, including amounts in money market funds, respectively.

8. FINANCIAL HIGHLIGHTS

Below are the financial highlights:

Per Share Data:	Three Months Ended December 31,	
	2012	2011
Net asset value, beginning of period	\$ 13.98	\$ 13.44
Net investment income ⁽¹⁾	0.30	0.20
Net change in realized and unrealized gain ⁽¹⁾	(0.04)	0.25
Net increase in net assets resulting from operations ⁽¹⁾	0.26	0.45
Dividends to stockholders ^{(1), (2)}	(0.25)	(0.21)
Net asset value, end of period	\$ 13.99	\$ 13.68
Per share market value, end of period	\$ 12.70	\$ 10.30

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Total return ^{*(3)}	2.15%	(0.45)%
Shares outstanding at end of period	6,850,667	6,850,667

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	Three Months Ended December 31,	
	2012	2011
Per Share Data:		
Ratios / Supplemental Data:**		
Ratio of operating expenses to average net assets ⁽⁴⁾	5.97%	3.49%
Ratio of Credit Facility related expenses to average net assets	1.96%	1.20%
Ratio of total expenses to average net assets	7.93%	4.69%
Ratio of net investment income to average net assets	8.58%	5.91%
Net assets at end of period	\$ 95,813,768	\$ 93,738,630
Average debt outstanding	\$ 70,040,217	\$ 27,986,957
Average debt per share	\$ 10.22	\$ 4.09
Portfolio turnover ratio	71.32%	74.70%

* Not annualized for periods less than one year.

** Annualized for periods less than one year.

(1) Per share data are calculated based on the weighted average shares outstanding for the respective periods.

(2) Dividends and distributions are determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.

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

(4) Operating expenses exclude Credit Facility related costs.

9. CREDIT FACILITY

Funding I is amended and restated Credit Facility with affiliates of SunTrust Bank, or the Lender, matures in May 2017 and its reinvestment period ends in May 2015. The Credit Facility allows Funding I to borrow up to \$100.0 million and contains an accordion feature whereby the Credit Facility can be expanded to \$600.0 million, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on us as a BDC. As of December 31, 2012 and September 30, 2012, Funding I had \$85.8 million and \$75.5 million of outstanding borrowings under the Credit Facility, respectively, and carried an interest rate of 2.47%, in each case excluding the 0.375% undrawn commitment fee.

During the three years beginning in May 2012, or the revolving period, the Credit Facility bears interest at LIBOR plus 225 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in May 2017. 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, as amended, 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 (for example, fair value, as defined under ASC 820, is not permitted to be used for assets or liabilities for such compliance reporting).

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(Unaudited)

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

Our interest in Funding I (other than the management fees) 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 Lender, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. The Investment Adviser has irrevocably directed that all management fees owing with respect to such services are to be paid to the Company so long as the Investment Adviser remains the collateral manager.

10. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt investments described in the Consolidated Statement of Assets and Liabilities represent unfunded delayed draws on investments, if any.

11. SUBSEQUENT EVENTS

Under terms agreed among us, the Investment Adviser and underwriters of our initial public offering, the Investment Adviser paid 2% of the underwriters' sales load, or approximately \$2.1 million in the aggregate, on our behalf. We agreed to repay such amount to the Investment Adviser upon its achievement of a benchmark return over four consecutive quarters, and the Investment Adviser agreed to use such amount to purchase shares of our common stock over a six-month period following such repayment. We met the conditions for repayment to the Investment Adviser at the end of the quarter ended December 31, 2012 and repaid approximately \$2.1 million to the Investment Adviser. The Investment Adviser announced that it intends to purchase shares of our common stock in the secondary market over the applicable six-month purchase period in compliance with applicable law and SEC guidance.

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PROSPECTUS

\$150,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

PennantPark Floating Rate Capital Ltd. is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, or the 1940 Act.

Our investment objectives are to generate current income and capital appreciation by investing primarily in Floating Rate Loans and other investments made to U.S. middle-market private companies. Floating Rate Loans or variable-rate investments pay interest at variable-rates, which are determined periodically, on the basis of a floating base lending rate such as the London Interbank Offered Rate, or LIBOR, with or without a floor plus a fixed spread. We can offer no assurances that we will achieve our investment objectives.

We are managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$150,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, or debt securities, which we refer to, collectively, as the securities. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission, or the SEC, may permit. See Risk Factors on page 8 and Sales of Common Stock Below Net Asset Value on page 53 of this prospectus for more information.

Our common stock has been approved for quotation on the NASDAQ Global Select Market under the symbol PFLT. The last reported closing price for our common stock on July 24, 2012 was \$12.14 per share, and our net asset value on March 31, 2012 was \$14.12 per share.

This prospectus and any accompanying prospectus supplement contain important information you should know before investing in our securities. Please read them before you invest in our securities and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may also obtain such information free of charge or make stockholder inquiries by contacting us in writing at 590 Madison Avenue, New York, NY 10022, by calling us collect at (212) 905-1000 or by using our website at www.pennantpark.com. The information on our website is not incorporated by reference into this prospectus. The SEC also maintains a website at www.sec.gov that contains such information free of charge.

Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any of our securities, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 8 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

Prospectus dated July 26, 2012

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You should rely only on the information contained in this prospectus and any accompanying prospectus supplement when considering whether to purchase any securities offered by this prospectus. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus and any accompanying prospectus supplement. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell and seeking offers to buy securities only in jurisdictions where offers are permitted. The information contained in or incorporated by reference in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus or such prospectus supplement. We will update these documents to reflect material changes only as required by law. Our business, financial condition, results of operations and prospects may have changed since then.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to \$150,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, or debt securities, on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. The information contained in this prospectus is accurate only as of the date on the front of this prospectus and our business, financial condition, results of operations and prospectus may have changed since that date. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. Some of the statements in this prospectus constitute forward-looking statements, which apply to both us and any consolidated subsidiaries, as applicable, and relate to future events, future performance or financial condition. The forward-looking statements involve risks and uncertainties on a consolidated basis and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in this prospectus. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. In this prospectus and any accompanying prospectus supplement, if any, except where the context suggests otherwise: the terms we, us, our, and Company refer to PennantPark Floating Rate Capital Ltd. and its consolidated subsidiary; Funding I or our subsidiary refers to our consolidated subsidiary, PennantPark Floating Rate Funding I, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; and PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC.

General Business of PennantPark Floating Rate Capital Ltd.

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

We believe that Floating Rate Loans to U.S. middle-market private companies offer attractive risk adjusted returns 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. We may also invest in public middle-market U.S. companies that are thinly traded or have a small market-capitalization. Our investments are typically rated below investment grade. Securities rated below investment grade are often referred to as leverage 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, Floating Rate Loans typically have more robust capital-preserving qualities, such as reduced credit risk, and have historically had lower default rates than junk bonds. Floating Rate Loans are typically the most senior source of capital in a borrower's capital structure and often have certain of the borrower's assets pledged as collateral. Our investments may have terms of 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, which means our net assets plus any borrowings for investment purposes, will be invested in Floating Rate Loans and other instruments bearing a variable rate of interest. We generally expect that senior secured loans, or first lien loans, will represent at least 65% of our overall portfolio. We also generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second-lien, high yield, mezzanine and distressed debt securities and equity investments. Our investment size may generally range between \$1 million and \$10 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. The turmoil in the credit markets in recent years has adversely affected each of these factors and has resulted in a broad-based reduction in the demand for middle-market debt instruments. These conditions may present us with attractive investment opportunities, as we believe that there are many middle-market companies that need senior secured

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and mezzanine debt financing. We have used, and expect to continue to use, our credit facility, or the Credit Facility, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Organization and Structure of PennantPark Floating Rate Capital Ltd.

PennantPark Floating Rate Capital Ltd., a Maryland corporation organized on October 28, 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 tax purposes we intend to be treated, and intend to qualify annually, as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our first fiscal year ended September 30, 2011.

Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 20 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history have resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser's inception in 2007, it has raised over \$1.4 billion in debt and equity capital and has invested over \$1.8 billion in 182 companies with over 100 different financial sponsors through its managed funds.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC. The Administrator oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator provides, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) There are significant potential conflicts of interest which could impact our investment returns for more information.

Market Opportunity

We believe that the limited amount of capital available to the middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us. From our perspective, middle market companies have faced difficulty raising debt capital in both the capital markets and private markets. As a result of the difficulties in the credit markets and fewer sources of capital for middle market companies, we see opportunities for improved risk-adjusted returns. Furthermore, we believe with a large pool of uninvested private equity capital seeking debt capital to complete transactions and a substantial supply of refinancing opportunities, there is an opportunity to attain appealing risk-adjusted returns with debt investments. See [Business](#) for more information.

Competitive Advantages

We believe that we have competitive advantages over other capital providers in middle-market companies, such as a management team with an average of over 20 years of experience, a disciplined investment approach

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with strong value orientation, an ability to source and evaluate transactions through our Investment Adviser's research capability and established network and flexible transaction structuring that allows for us to invest across the capital structure coupled with a longer investment horizon with an attractive publicly traded model. See [Business](#) for more information.

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs and closed-end funds, commercial and investment banks, commercial finance companies, collateralized loan obligation, or CLO, funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities in middle-market companies can be intense. However, we believe that there has been a reduction in the amount of debt capital available to middle-market companies since the downturn in the credit markets. We believe this has resulted in a less competitive environment for making new investments. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) [We operate in a highly competitive market for investment opportunities](#) for more information.

Leverage

We maintain a five-year, \$100.0 million Credit Facility, which matures on June 23, 2016, with SunTrust Robinson Humphrey, Inc., or STRH. During the Credit Facility's first three years, or the revolving period, it bears interest at a commercial paper rate that approximates LIBOR plus 225 basis points, and after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years. The Credit Facility is secured by all of the assets held by Funding I, under which we had drawn \$47.8 million outstanding with a weighted average interest rate of 2.54%, excluding the unused commitment fee of 0.50%, as of March 31, 2012. The Credit Facility permits, subject to satisfaction of certain conditions, an accordion feature whereby the Credit Facility can be expanded to \$600.0 million. We believe that our capital resources provide us with the flexibility to take advantage of market opportunities when they arise. See [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Liquidity and Capital Resources](#) for more information.

Operating and Regulatory Structure

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of us. Under our investment management agreement, or the Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. See [Certain Relationships and Transactions](#) [Investment Management Agreement](#) for more information.

We have also entered into an administration agreement, or the 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. See [Certain Relationships and Transactions](#) [Administration Agreement](#) for more information.

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See [Regulation](#) for more information.

Use of Proceeds

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding obligations under our Credit Facility, to invest in new or existing portfolio companies, to capitalize a

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subsidiary or for other general corporate purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See [Use of Proceeds](#) for information regarding our outstanding borrowings, the corresponding interest rate charged on such borrowings and the length of time that it may take us to invest any proceeds in new or existing portfolio companies.

Dividends on Common Stock

We intend to continue to distribute monthly dividends to our common stockholders. Our monthly dividends, if any, are determined by our board of directors. See [Distributions](#) for more information.

Dividends on Preferred Stock

We may issue preferred stock from time to time, although we have no immediate intention to do so. Any such preferred stock will be a senior security for purposes of the 1940 Act and, accordingly, subject to the leverage test under that Act. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock can range from weekly to quarterly and is subject to extension. The dividend rate could be variable and determined for each dividend period. See [Risk Factors](#) [Risks Relating To Our Business and Structure](#) for more information.

Dividend Reinvestment Plan

We have adopted an [opt-out](#) dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not [opted out](#) of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock rather than receiving the cash dividends. Registered stockholders must notify our transfer agent in writing if they wish to [opt-out](#) of the dividend reinvestment plan. See [Dividend Reinvestment Plan](#) for more information.

Plan of Distribution

We may offer, from time to time, up to \$150 million of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus. We may sell our securities through underwriters or dealers, [at-the-market](#) to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc., or FINRA, the compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of the offering of such securities. See [Plan of Distribution](#) for more information.

Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on the NASDAQ Global Select Market under the symbol

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PFLT. Our phone number is (212) 905-1000, and our Internet website address is www.pennantpark.com. Information contained on our website is not incorporated by reference into this prospectus or any supplements to this prospectus, and you should not consider information contained on our website to be part of this prospectus or any supplements to this prospectus. We file periodic reports, proxy statements and other information with the SEC. You may read and copy the materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at www.sec.gov that contains material that we file with the SEC on the EDGAR Database.

Table of Contents**FEES AND EXPENSES**

The following table will assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The following table should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay, stockholders will indirectly bear such fees or expenses as investors in us.

Stockholder transaction expenses (as a percentage of offering price)		
Sales load		% ⁽¹⁾
Offering expenses		% ⁽²⁾
Total stockholder expenses		%
Estimated annual expenses (as a percentage of average net assets attributable to common shares)⁽³⁾		
Management fees	1.45	% ⁽⁴⁾
Incentive fees payable under the Investment Management Agreement	0.31	% ⁽⁵⁾
Interest payments on borrowed funds	1.45	% ⁽⁶⁾
Other expenses	2.17	% ⁽⁷⁾
Total estimated annual expenses	5.38	%⁽⁸⁾

- (1) In the event that the securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.
- (3) Net assets attributable to common shares equals average net assets as of March 31, 2012.
- (4) The contractual management fee is calculated at an annual rate of 1.00% of our average adjusted gross assets on March 31, 2012. See Certain Relationships and Transactions-Investment Management Agreement for more information.
- (5) The portion of incentive fees paid with respect to net investment income is based on actual amounts incurred and payable under our Investment Management Agreement during the three months ended March 31, 2012, annualized for a full year. Such incentive fees are based on performance, vary from year to year and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains 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 20.0% 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. As of March 31, 2012, our unrealized capital gains exceeded our cumulative realized and unrealized capital losses and we accrued a capital gains incentive fee of \$0.1 million in accordance with U.S. generally accepted accounting principles, or GAAP. However, Incentive fees payable under the Investment Management Agreement includes an accrual for capital gains incentive fee for the three months ended March 31, 2012 even though no capital gains incentive fee was payable under our Investment Management Agreement as of March 31, 2012. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future periods, if any, may be substantially different than the fee earned during the three months ended March 31, 2012, and we cannot assure you that we will recognize capital gains for the calendar year ending December 31, 2012 in amounts consistent with the accrual for the same period. For more detailed information about the incentive fee, please see Certain Relationships and Transactions Investment Management Agreement for more information.
- (6) As of March 31, 2012, we had \$47.8 million in borrowings outstanding under our \$100.0 million Credit Facility. We may use proceeds of an offering of securities under this registration statement to repay

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outstanding obligations under our Credit Facility. After completing any such offering, we may continue to borrow under our Credit Facility to finance our investment objectives. We have estimated the annual interest expense on borrowed funds and caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See Risk Factors Risks Relating To Our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.

- (7) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on actual other expenses for the three months ended March 31, 2012 annualized for a full year. See the Consolidated Statement of Operations in our Consolidated Financial Statements.
- (8) Total annual expenses as a percentage of net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total annual expenses percentage would be for a company that is not leveraged. We may borrow money to leverage our net assets and increase our total assets. The SEC requires that the total annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness) rather than total assets, which include assets that have been funded with borrowed money. For a presentation and calculation of total annual expenses based on average total assets, see page 38 of this prospectus.

Example

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a \$1,000 hypothetical investment in common shares, assuming (1) a 3.22% sales load (underwriting discounts and commissions) and offering expenses totaling 0.32%, (2) total net annual expenses of 5.07% of average net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	\$ 84	\$ 182	\$ 279	\$ 523

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses may be greater or less than those assumed. The table above is provided to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Assuming a 5% annual return, the incentive fee under our Investment Management Agreement would not be earned or payable and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. The example assumes that all dividends and distributions are reinvested at net asset value. Under certain circumstances, reinvestment of dividends and distributions under our dividend reinvestment plan may occur at a price per share that differs from net asset value. See Distributions for more information.

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RISK FACTORS

Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus and the accompanying prospectus supplement, if any, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline or the value of our preferred stock, warrants, subscription rights or debt securities, may decline, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND STRUCTURE

We are a new company with a limited operating history.

We were incorporated in October 2010 and commenced operations in March 2011. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objective and that the value of your investment could decline substantially.

Global capital markets could enter a period of severe disruption and instability. These market conditions have historically and could again materially and adversely affect debt and equity capital markets in the United States, which could have a materially negative impact on our business, financial condition and results of operations.

The U.S. capital markets have experienced a period of disruption characterized by the freezing of credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. During this period of disruption, general economic conditions deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole, and financial services firms in particular, was reduced significantly. These conditions may reoccur for a prolonged period of time again or materially worsen in the future. We may in the future have difficulty accessing debt and equity capital, and a severe disruption and instability in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations.

Volatility or a prolonged disruption in the credit markets could materially damage our business.

We are required to record our assets at fair value, as determined in good faith by our board of directors in accordance with our valuation policy. As a result, volatility in the capital markets may materially adversely affect our valuations and our net asset value, even if we intend to hold investments to maturity. Volatility or dislocation in the capital markets may depress our stock price below our net asset value per share and create a challenging environment in which to raise debt and equity capital. As a BDC, we are generally not able to issue additional shares of our common stock at a price less than our net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. Additionally, our ability to incur indebtedness is limited by applicable regulations, such that our asset coverage, as defined under the 1940 Act, must equal at least 200% of our total indebtedness immediately after each time we incur indebtedness. Shrinking portfolio values negatively impact our ability to borrow additional funds under the Credit Facility because our net asset value is reduced for purposes of the 200% asset coverage test. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. A protracted disruption in the credit markets could also materially decrease demand for our investments.

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The significant disruption in the capital markets experienced in the past may in the future have a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. The debt capital that will be available to us may be at a higher cost and/or on less favorable terms and conditions than those currently used. A prolonged inability to raise capital may require us to reduce the volume of Floating Rate Loans we invest in and could have a material adverse impact on our business, financial condition or results of operations. This may also increase the probability that other structural risks negatively impact us. These situations may arise due to circumstances that we may be unable to control, such as a protracted disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or an operational problem that affects third parties or us, and could materially damage our business, financial condition or results of operations.

Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide determination of our board of directors, then we would carry our investments, at fair value as determined in good faith by or under the direction of our board of directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Unrealized losses of any given portfolio company could be an indication of such company's inability in the future to meet its repayment obligations to us. If the fair value of our portfolio companies reflects future realized losses, this would ultimately result in reductions of our income available for distribution in future periods and could materially harm our results of operations and cause a material decline in the value of our securities.

We incur credit risk when we loan money or commit to loan money to a portfolio company.

Our primary business exposes us to credit risk, and the quality of our portfolio has a significant impact on our earnings. Credit risk is a component part of our fair valuation of our Floating Rate Loans and other investments we may purchase. Negative credit events will lead to a decrease in the fair value of our Floating Rate Loans and other investments.

In addition, current market conditions have affected consumer confidence levels, which may result in adverse changes in payment patterns. Increased delinquencies and default rates would impact our results of operations. Deterioration in the credit quality of our portfolio could have a material adverse effect on our capital, financial condition and results of operations.

Following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company.

If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business and cause a material adverse effect on our business, financial condition or results of operations.

Our borrowers may default on their payments, which may have a materially negative effect on our financial performance.

We invest in Floating Rate Loans, which may involve a high degree of repayment risk. We invest in companies that may have limited financial resources, may be highly leveraged and may be unable to obtain financing from traditional sources. Accordingly, a general economic downturn or severe tightening in the credit markets could materially negatively impact the ability of our borrowers to repay their loans, which could materially damage our business. Numerous other factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan or a downturn in its industry. A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially,

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termination of its loans or foreclosure on the secured assets. This could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the loans or debt securities that we hold. In addition, our portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with our securities. This means that payments on such senior-ranking securities may have to be made before we receive any payments on our subordinated loans or debt securities. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral and may have a materially adverse effect on our financial condition and results of operations.

We are dependent upon our Investment Adviser's key personnel for our future success, and if we are or our Investment Adviser is unable to hire and retain qualified personnel or if we lose any member of our management team, our ability to achieve our investment objectives could be significantly harmed.

We depend on the diligence, skill and network of business contacts of the investment professionals of the Investment Adviser. We also depend, to a significant extent, on PennantPark Investment Advisers' access to the investment information and deal flow generated by these investment professionals and any others that may be hired by the Investment Adviser. Managers of the Investment Adviser evaluate, negotiate, structure, close and monitor our investments. Our future success depends on the continued service of management personnel of the Investment Adviser. The departure of managers of the Investment Adviser could have a material adverse effect on our ability to achieve our investment objectives. In addition, we can offer no assurance that PennantPark Investment Advisers will remain our Investment Adviser. The Investment Adviser has the right, under the Investment Management Agreement, to resign at any time upon 60 days' written notice, whether we have found a replacement or not.

Our financial condition and results of operation depends on our ability to manage future growth effectively.

Our ability to achieve our investment objectives depend on our ability to grow, which depends, in turn, on the Investment Adviser's ability to identify, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of the Investment Adviser's structuring of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. The management team of PennantPark Investment Advisers has substantial responsibilities under the Investment Management Agreement. In order to grow, the Investment Adviser will need to hire, train, supervise and manage new employees. However, we can offer no assurance that any such employees will contribute effectively to the work of the Investment Adviser. We caution you that the principals of the Investment Adviser or Administrator may also be called upon to provide and currently do provide managerial assistance to portfolio companies and other investment vehicles, including other BDCs, which are managed by the Investment Adviser. Such demands on their time may distract them or slow our rate of investment. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with public and private funds, including other BDCs and closed-end funds, commercial and investment banks, commercial financing companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, also invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. Many of our potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act will impose on us as a BDC. We cannot offer any

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assurances that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Participants in our industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. We will not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that are lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

We may not replicate the historical performance of other investment companies with which our investment professionals have been affiliated.

The 1940 Act imposes numerous constraints on the investment activities of BDCs. For example, BDCs are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded public companies with a market capitalization of less than \$250 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. These constraints may hinder the Investment Adviser's ability to take advantage of attractive investment opportunities and to achieve our investment objectives. Current market conditions and the depressed economic cycle present significant challenges to us that have not been present in recent years, if ever. In addition, the investment philosophy and techniques used by the Investment Adviser may differ from those used by other investment companies advised by the Investment Adviser. Accordingly, we can offer no assurance that we will replicate the historical performance of other investment companies with which our investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

Any failure on our part to maintain our status as a business development company would reduce our operating flexibility.

We have elected to be treated as a BDC. If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility, which could have a material adverse effect on our business, financial condition and results of operations.

Loss of RIC tax status would substantially reduce net assets and income available for debt service and dividends.

We have operated and intend to operate so as to qualify as a RIC under Subchapter M of the Code commencing with our first taxable year. If we meet source of income, quarterly asset diversification, and distribution requirements, we generally will not be subject to corporate-level income taxation on income we timely distribute, or deem to distribute, to our stockholders as dividends. We would cease to qualify for such tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting the requirement to make distributions to our stockholders because in certain cases we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for debt service as well as reduce and/or affect the character and amount of our distributions to our stockholders. Even if we qualify as a RIC, we generally will be subject to a corporate-level income tax on the income or gains we do not distribute. If we do not distribute an amount at least equal to the sum of 98% of our ordinary income (during the calendar year) plus 98.2% of our net capital gain income (during each 12-month period ending on October 31), we generally will be required to pay an excise tax on amounts carried over and distributed to shareholders in the next year equal to 4% of the undistributed amount.

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We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount, or OID, or contracted payment-in-kind, or PIK, interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Original issue discount, which could be significant relative to our overall investment assets, and increases in loan balances as a result of contracted PIK interest will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

The part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

In some cases we may recognize income before or without receiving cash representing such income. As a result, we may have difficulty meeting the tax requirement to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, to obtain RIC tax benefits. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements which could have a material adverse effect on our business, financial condition and results of operations. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax benefits and thus be subject to corporate level income tax.

Because we intend to distribute substantially all of our income to our stockholders to maintain our status 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 applicable to a RIC, we intend to distribute to our stockholders substantially all of our net ordinary income and net capital gain income except for certain net long-term capital gains, some or all of which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings, of at least 200% of indebtedness. 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 will be 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 maintain our status as a RIC. We may have to request a waiver of these covenant restrictions for Funding I to make certain distributions to maintain our RIC status. 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 result in an entity-level tax on us.

Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital.

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock, the issuance of warrants or subscription rights to purchase certain of our securities, or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as senior securities, and we may borrow money

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from banks, or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such issuance or incurrence. Our ability to pay dividends, incur additional indebtedness or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness or redeem a portion of our senior securities, as applicable, at a time when such sales may be disadvantageous, which could materially damage our business.

Senior Securities. As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank senior to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest. Our senior securities may include conversion features that cause them to bear risks more closely associated with an investment in our common stock.

Additional Common Stock. Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our board of directors. Also, subject to the requirements of the 1940 Act, we may issue rights to acquire our common stock at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.

Securitization. In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. Even though we expect the pool of loans that we contribute to any such securitization vehicle to be rated below investment grade, because the securitization vehicle's portfolio of loans would secure all of the debt issued by such vehicle, a portion of such debt may be rated investment grade, subject in each case to market conditions that may require such portion of the debt to be over collateralized and various other restrictions. If applicable accounting pronouncements or SEC staff guidance requires us to consolidate the securitization vehicle's financial statements with our financial statements any debt issued by it would be generally treated as if it were issued by us for purposes of the asset coverage test applicable to us. In such case, we would expect to retain all or a portion of the equity and/or subordinated notes in the securitization vehicle. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We may hold subordinated debentures in any such securitization vehicle and, if so, we would not consider such securities to be senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy

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and adversely affect our earnings, if any. Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and more apt to generate losses.

We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.

Because we borrow funds, through Funding I, to make investments we are exposed to increased risk of loss due to our use of debt to make investments. A decrease in the value of our investments will have a greater negative impact on the net asset value attributable to our common stock than it would if we did not use debt. Our ability to pay distributions is restricted when our asset coverage ratio is not at least 200%, and any amounts that we use to service our indebtedness are not available for distribution to our common stockholders.

Our current debt is governed by the terms of the Credit Facility and may in the future be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing debt. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock.

Funding I may fail to meet certain asset coverage tests, which would have an adverse effect on the timing of payments to us, or otherwise fail to satisfy various covenants.

Under the documents governing the Credit Facility, there are two coverage tests applicable to Funding I. For example, the income coverage test compares the amount of interest received on the portfolio loans held by Funding I to the amount of interest payable to the Lender and certain other expenses. To meet this test, the aggregate amount of interest received on the portfolio loans must equal at least 125% of the interest payable in respect to the Lender and other parties. If these coverage tests are not satisfied on any date on which compliance is measured, Funding I will be required to apply any available funds to the repayment of principal under the Credit Facility to the extent necessary to satisfy the applicable coverage tests.

In addition to the applicable asset coverage test that restricts our ability to borrow under Funding I's Credit Facility, the various covenants which, if not complied with, could accelerate repayment under the Credit Facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations. Funding I's borrowings under the Credit Facility are collateralized by the assets in Funding I's investment portfolio. The agreements governing the Credit Facility require Funding I to comply with certain financial and operational covenants. These covenants include:

A requirement to retain our status as a BDC;

A requirement to maintain a minimum amount of shareholder's equity; and

A requirement that our outstanding borrowings under the Credit Facility not exceed a certain percentage of the values of our portfolio companies.

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. Material net asset devaluation resulting from under performance or defaults in connection with additional borrowings could result in an inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of shareholders equity. This could have a material adverse effect on our operations, as it would trigger mandatory pre-payment obligations under the terms of the Credit Facility.

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 expect in the future to borrow additional amounts under our Credit Facility and, subject to market availability and satisfaction of certain conditions, to increase the size of our Credit Facility. Lenders have fixed dollar claims on our assets that are

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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. Leverage is generally considered a speculative investment technique. If the value of our assets decreases, leveraging would cause the net asset value 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.

As of March 31, 2012, we had outstanding borrowings of \$47.8 million under our Credit Facility with a weighted average annual interest rate on of 2.54% exclusive of the fees on the undrawn commitment of 0.50%. Accordingly, to cover the annual interest on our borrowings outstanding at March 31, 2012, at the then current rate, we would have to receive an annual yield of at least 0.84%. This example is for illustrative purposes only, and actual interest rates on our Credit Facility borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee payable to our Investment Adviser, will be borne by our common stockholders.

The following table is designed to illustrate the effect on return to a holder of our common stock of the leverage created by our use of borrowing at March 31, 2012 of 31% of total assets (including such borrowed funds), at a weighted average rate at the time of 2.54%, and assuming hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level and weighted average rate of leverage. The amount of leverage 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⁾	(16.9)%	(9.1)%	(1.3)%	14.4%

- (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.

We are exposed to risks associated with changes in interest rates that may affect our cost of capital and net investment income.

Since we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds will increase, which could reduce our net investment income. We may use interest rate risk management techniques, such as total return swaps and interest rate swaps, in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering

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into hedging transactions, and we will initially have to purchase or develop such expertise. See Management Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk for more information.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt in