

PennantPark Floating Rate Capital Ltd.

Form N-14 8C

May 18, 2015

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As filed with the Securities and Exchange Commission on May 18, 2015

333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-14**  
**REGISTRATION STATEMENT**  
***UNDER***  
***THE SECURITIES ACT OF 1933***

**Pre-Effective Amendment No.** ..  
**Post-Effective Amendment No.** ..  
**(Check appropriate box or boxes)**

**PennantPark Floating Rate Capital Ltd.**  
**(Exact Name of Registrant as Specified in Charter)**

**590 Madison Avenue**

**15<sup>th</sup> Floor**

**New York, NY 10022**

**(Address of Principal Executive Offices)**

**Telephone Number: (212) 905-1000**

**(Area Code and Telephone Number)**

**Arthur H. Penn**

**c/o PennantPark Floating Rate Capital Ltd.**

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

**New York, NY 10022**

**(212) 905-1000**

**(Name and Address of Agent for Service)**

*Copies to:*

**Thomas J. Friedmann**

**David Shapiro**

**David J. Harris**

**Jenna Levine**

**William J. Tuttle**

**Wachtell, Lipton, Rosen & Katz**

**Dechert LLP**

**51 West 52<sup>nd</sup> Street**

**1900 K Street, N.W.**

**New York, NY 10019**

**Washington, D.C. 20006**

**Telephone: (212) 403-1000**

**Telephone: (202) 261-3300**

**Approximate Date of Proposed Public Offering:** As soon as practicable as after this registration statement becomes effective and upon completion of the Merger described in the enclosed document.

**Calculation of Registration Fee**

**under the Securities Act of 1933:**

Title of Securities Being Registered	Amount Being Registered <sup>(1)</sup>	Proposed		Amount of Registration Fee <sup>(3)</sup>
		Maximum Offering Price per Share of Common Stock	Proposed Maximum Aggregate Offering Price <sup>(2)</sup>	
Common Stock, \$0.001 par value per share	15,000,000 shares	N/A	\$170,000,000	\$19,754

(1) The number of shares to be registered represents the maximum number of shares of the registrant's common stock estimated to be issuable pursuant to the Merger Agreement described in the enclosed document. Pursuant to Rule 416, this registration statement also covers additional securities that may be issued as a result of stock splits, stock dividends or similar transactions.

(2) Estimated solely for the purpose of calculating the registration fee and calculated pursuant to Rules 457(c) and 457(f)(1) under the Securities Act of 1933, as amended, the proposed maximum aggregate offering price is equal to:

(3) Based on a rate of \$116.20 per \$1,000,000 of the proposed maximum aggregate offering price.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This joint proxy statement and prospectus shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**PRELIMINARY SUBJECT TO COMPLETION DATED MAY 18, 2015**

**PENNANTPARK FLOATING RATE CAPITAL LTD.**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

On April 29, 2015, PennantPark Floating Rate Capital Ltd., or PFLT, and MCG Capital Corporation, or MCG, announced that they have entered into a definitive agreement under which PFLT will acquire MCG in a stock and cash transaction currently valued at approximately \$175 million, or approximately \$4.75 per MCG share at closing, representing a 15.8% premium to MCG's closing stock price on April 28, 2015. The Boards of Directors of both companies have each unanimously approved the transaction. This transaction is a strategic business combination in which a wholly-owned subsidiary of PFLT would merge with and into MCG with MCG continuing as the surviving corporation, followed immediately by the merger of MCG with and into a second wholly-owned subsidiary of PFLT that will continue as the surviving entity and a wholly-owned subsidiary of PFLT. The mergers are collectively referred to in this joint proxy statement and prospectus as the Merger.

If the Merger is completed, holders of MCG common stock, par value \$0.01 per share, or MCG Common Stock, will have a right to receive \$4.521 in shares of PFLT common stock, par value \$0.001 per share, or PFLT Common Stock, for each share of MCG Common Stock, held immediately prior to the Initial Merger, as well as \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock).

PFLT is incorporated in Maryland and MCG is incorporated in Delaware, and each has elected to be regulated as business development company under the Investment Company Act of 1940.

The market value of the consideration in the form of PFLT Common Stock will fluctuate with the market price of PFLT Common Stock. The following table shows the closing sale prices of PFLT Common Stock and MCG Common Stock as reported on the NASDAQ Global Select Market, or NASDAQ, on April 28, 2015, the last trading day before the public announcement of the Merger, and on [ ], 2015, the last trading day before the distribution of this joint proxy statement and prospectus.

	<b>PFLT</b>	<b>MCG</b>
	<b>Common Stock</b>	<b>Common Stock</b>
Closing Price at April 28, 2015	\$ 14.15	\$ 4.10

Closing Price at [                      ], 2015                      \$                      \$

You should obtain current stock price quotations for PFLT Common Stock and MCG Common Stock. PFLT Common Stock trades on NASDAQ under the symbol PFLT. MCG Common Stock trades on NASDAQ under the symbol MCGC.

At a special meeting of PFLT stockholders, PFLT stockholders will be asked to vote on the approval of issuance of PFLT Common Stock pursuant to the Merger. The stock issuance proposal requires the approval of at least a majority of the votes cast by holders of PFLT Common Stock at a meeting at which a quorum is present. **Under the terms of the Merger Agreement, shares of PFLT Common Stock will be issued in the Merger at a price per share greater than or equal to then-current net asset value per share.**

At a special meeting of MCG stockholders, MCG stockholders will be asked to vote on the approval of the Merger and the Agreement and Plan of Merger, dated as of April 28, 2015, by and among PFLT, MCG, PFLT Panama, LLC, PFLT Funding II, LLC and PennantPark Investment Advisers, LLC, described in this joint proxy statement and prospectus. Approval of the Merger and the Merger Agreement requires the approval of at least a majority of the outstanding shares of MCG's outstanding shares entitled to vote on the matter.

**After careful consideration, the board of directors of PFLT unanimously recommends that its stockholders vote FOR approval of the Merger and the Merger Agreement and FOR approval of the proposal to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.**

**This joint proxy statement and prospectus concisely describes the special meetings, the Merger, the documents related to the Merger and other related matters that a PFLT common stockholder ought to know before voting on the proposals described herein and should be retained for future reference. Please carefully read this entire document, including Risk Factors beginning on page 25, for a discussion of the risks relating to the Merger. You also can obtain information about PFLT and MCG from documents that each has filed with the Securities and Exchange Commission. See Where You Can Find More Information for instructions on how to obtain such information.**

Sincerely,

Arthur H. Penn

*Chairman of the Board of Directors*

*PennantPark Floating Rate Capital Ltd.*

**The Securities and Exchange Commission has not approved or disapproved the PFLT Common Stock to be issued under this joint proxy statement and prospectus or determined if this joint proxy statement and prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.**

The date of this joint proxy statement and prospectus is [                      ], 2015 and it is first being mailed or otherwise delivered to PFLT stockholders on or about [                      ], 2015.

*PennantPark Floating Rate Capital Ltd.*

*MCG Capital Corporation*

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590 Madison Avenue

1001 19<sup>th</sup> Street North

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**Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This joint proxy statement and prospectus shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**PRELIMINARY SUBJECT TO COMPLETION DATED MAY 18, 2015**

**MCG CAPITAL CORPORATION**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Stockholder,

On April 29, 2015, PennantPark Floating Rate Capital Ltd., or PFLT, and MCG Capital Corporation, or MCG, announced that they have entered into a definitive agreement under which PFLT will acquire MCG in a stock and cash transaction currently valued at approximately \$175 million, or approximately \$4.75 per MCG share at closing, representing a 15.8% premium to MCG's closing stock price on April 28, 2015. The Boards of Directors of both companies have each unanimously approved the transaction. This transaction is a strategic business combination in which a wholly-owned subsidiary of PFLT would merge with and into MCG with MCG continuing as the surviving corporation, followed immediately by the merger of MCG with and into a second wholly-owned subsidiary of PFLT that will continue as the surviving entity and a wholly-owned subsidiary of PFLT. The mergers are collectively referred to in this joint proxy statement and prospectus as the Merger.

If the Merger is completed, holders of MCG common stock, par value \$0.01 per share, or MCG Common Stock, will have a right to receive \$4.521 in shares of PFLT common stock, par value \$0.001 per share, or PFLT Common Stock, for each share of MCG Common Stock, held immediately prior to the Initial Merger, as well as \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock).

PFLT is incorporated in Maryland and MCG is incorporated in Delaware, and each has elected to be regulated as business development company under the Investment Company Act of 1940. Importantly, following completion of the Merger, you will continue to be an investor in a business development company and benefit from the protections of the Investment Company Act of 1940 associated with business development companies.

The market value of the consideration in the form of PFLT Common Stock will fluctuate with the market price of PFLT Common Stock. The following table shows the closing sale prices of PFLT Common Stock and MCG Common Stock as reported on the NASDAQ Global Select Market, or NASDAQ, on April 28, 2015, the last trading day before the public announcement of the Merger, and on [ ], 2015, the last trading day before the distribution of this joint proxy statement and prospectus.

	<b>PFLT</b>	<b>MCG</b>
	<b>Common Stock</b>	<b>Common Stock</b>
Closing Price at April 28, 2015	\$ 14.15	\$ 4.10
Closing Price at [                      ], 2015	\$	\$

You should obtain current stock price quotations for PFLT Common Stock and MCG Common Stock. PFLT Common Stock trades on NASDAQ under the symbol PFLT. MCG Common Stock trades on NASDAQ under the symbol MCGC.

At a special meeting of PFLT stockholders, PFLT stockholders will be asked to vote on approval of the issuance of PFLT Common Stock pursuant to the Merger. The stock issuance proposal requires the approval of at least a majority of the votes cast by holders of PFLT Common Stock at a meeting at which a quorum is present. **Under the terms of the Merger Agreement, shares of PFLT Common Stock will be issued in the Merger at a price per share greater than or equal to then-current net asset value per share.**

At a special meeting of MCG stockholders, MCG stockholders will be asked to vote on the approval of the Merger and the Agreement and Plan of Merger, dated as of April 28, 2015, by and among PFLT, MCG, PFLT Panama, LLC, PFLT Funding II, LLC and PennantPark Investment Advisers, LLC, described in this joint proxy statement and prospectus. Approval of the Merger and the Merger Agreement requires the approval of at least a majority of the outstanding shares of MCG's outstanding shares entitled to vote on the matter.

**After careful consideration, the board of directors of MCG unanimously recommends that its stockholders vote FOR approval of the Merger and the Merger Agreement and FOR approval of the proposal to adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal.**

**This joint proxy statement and prospectus concisely describes the special meetings, the Merger, the documents related to the Merger and other related matters that an MCG stockholder ought to know before voting on the proposals described herein and should be retained for future reference. Please carefully read this entire document, including Risk Factors beginning on page 25, for a discussion of the risks relating to the Merger. You also can obtain information about PFLT and MCG from documents that each has filed with the Securities and Exchange Commission. See Where You Can Find More Information for instructions on how to obtain such information.**

Sincerely,

Richard Neu

*Chairman of the Board of Directors*

*MCG Capital Corporation*

**The Securities and Exchange Commission has not approved or disapproved the PFLT Common Stock to be issued under this joint proxy statement and prospectus or determined if this joint proxy statement and prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.**

The date of this joint proxy statement and prospectus is [                      ], 2015 and it is first being mailed or otherwise delivered to MCG stockholders on or about [                      ], 2015.



*PennantPark Floating Rate Capital Ltd.*

*MCG Capital Corporation*

590 Madison Avenue

1001 19<sup>th</sup> Street North

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10<sup>th</sup> Floor

New York, NY 10022

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**PENNANTPARK FLOATING RATE CAPITAL LTD.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON [ ], 2015**

To the Stockholders of PennantPark Floating Rate Capital Ltd.:

Notice is hereby given that PennantPark Floating Rate Capital Ltd., a Maryland corporation, or PFLT, will hold a special meeting of the stockholders of PFLT, or the PFLT special meeting, on [ ], 2015 at [ ], Eastern Time, at the offices of Dechert LLP, 1095 Avenue of the Americas, New York, NY 10036, for the following purposes:

1. To consider and vote upon a proposal to approve the issuance of the shares of PFLT's common stock, \$0.001 par value per share, or PFLT Common Stock, to be issued pursuant to the Agreement and Plan of Merger, as such agreement may be amended from time to time, or the Merger Agreement, dated as of April 28, 2015, among PFLT, MCG Capital Corporation, or MCG, PFLT Panama, LLC and PFLT Funding II, LLC, each a wholly owned subsidiary of PFLT, and PennantPark Investment Advisers, LLC; and
2. To consider and vote upon a proposal to approve the adjournment of the PFLT special meeting, if necessary or appropriate, to solicit additional proxies, if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.

You have the right to receive notice of, and to vote at, the PFLT special meeting if you were a stockholder of record at the close of business on [ ], 2015. **Whether or not you expect to be present in person at the PFLT special meeting, we urge you to promptly fill out, sign and date the enclosed proxy card and return it promptly in the envelope provided or vote by telephone or through the Internet.** Instructions are shown on the proxy card.

You have the option to revoke the proxy at any time prior to the meeting or to vote your shares personally if you attend the meeting.

The PFLT board of directors has unanimously approved the Merger and the Merger Agreement and the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement and unanimously recommends that PFLT stockholders vote **FOR** approval of the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement and **FOR** approval of the proposal to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal. **Under the terms of the Merger Agreement, shares of PFLT Common Stock will be issued in the Merger at a price per share greater than or equal to then-current net asset value per share.**

By Order of the Board of Directors,

Thomas J. Friedmann

*Secretary*

New York, New York

[ ], 2015

**This is an important meeting. To ensure proper representation at the PFLT special meeting, please complete, sign, date and return the proxy card in the enclosed self-addressed envelope. Even if you vote your shares prior to the PFLT special meeting, you still may attend the PFLT special meeting and vote your shares in person.**

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**MCG CAPITAL CORPORATION**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

To the Stockholders of MCG Capital Corporation:

Notice is hereby given that MCG Capital Corporation, a Delaware corporation, or MCG, will hold a special meeting of the stockholders of MCG, or the MCG special meeting, on [ ], 2015 at [ ], Eastern Time, at [ ], to consider and vote on the following matters:

1. A proposal to approve the merger of PFLT Panama, LLC, a wholly owned subsidiary of PennantPark Floating Rate Capital Ltd., or PFLT, with and into MCG followed immediately and as a single integrated transaction by the Merger of MCG with and into PFLT Funding II, LLC, or the Merger, and to approve the Agreement and Plan of Merger, as such agreement may be amended from time to time, or the Merger Agreement; and
2. A proposal to approve the adjournment of the MCG special meeting, if necessary or appropriate, to solicit additional proxies, if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal.

You have the right to receive notice of, and to vote at, the MCG special meeting if you were a stockholder of record at the close of business on [ ], 2015. **Whether or not you expect to be present in person at the MCG special meeting, we urge you to promptly fill out, sign and date the enclosed proxy card and return it promptly in the envelope provided or vote by telephone or through the Internet.** Instructions are shown on the proxy card.

You have the option to revoke the proxy at any time prior to the meeting or to vote your shares personally on request if you attend the meeting.

The MCG board of directors has unanimously approved the Merger and the Merger Agreement and unanimously recommends that MCG stockholders vote FOR approval of the Merger and the Merger Agreement and FOR approval of the proposal to adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal.

By Order of the Board of Directors,

Tod K. Reichert

*Secretary*

Arlington, Virginia

[ ], 2015

**This is an important meeting. To ensure proper representation at the MCG special meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope, vote your shares by telephone or vote via the Internet. Even if you vote your shares prior to the MCG special meeting, you still may attend the MCG special meeting and vote your shares in person.**

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**ABOUT THIS JOINT PROXY STATEMENT AND PROSPECTUS**

This joint proxy statement and prospectus, which forms part of a registration statement filed with the Securities and Exchange Commission, or the SEC, by PFLT (File No. 333- ), constitutes a prospectus of PFLT under Section 5 of the Securities Act of 1933, or the Securities Act, with respect to the shares of PFLT Common Stock to be issued to holders of MCG Common Stock as required by the Merger Agreement.

This joint proxy statement and prospectus also constitutes a joint proxy statement under Section 14(a) of the Securities Exchange Act of 1934, or the Exchange Act. It also constitutes a notice of meeting with respect to the special meetings of MCG stockholders, at which MCG stockholders will be asked to vote on a proposal to approve the Merger and the Merger Agreement, and PFLT stockholders, at which PFLT stockholders will be asked to vote on the issuance of PFLT Common Stock pursuant to the Merger. **Under the terms of the Merger Agreement, shares of PFLT Common Stock will be issued in the Merger at a price per share greater than or equal to then-current net asset value per share.**

You should rely only on the information contained in this joint proxy statement and prospectus. No one has been authorized to provide you with information that is different from that contained in this joint proxy statement and prospectus. This joint proxy statement and prospectus is dated [ ], 2015. You should not assume that the information contained in this joint proxy statement and prospectus is accurate as of any date other than that date. Neither the mailing of this joint proxy statement and prospectus to PFLT stockholders or MCG stockholders nor the issuance of PFLT Common Stock pursuant to the Merger will create any implication to the contrary.

This joint proxy statement and prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction.

Except where the context otherwise indicates, information contained in this joint proxy statement and prospectus regarding PFLT has been provided by PFLT and information contained in this joint proxy statement and prospectus regarding MCG has been provided by MCG.



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**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETINGS AND THE MERGER**

The questions and answers below highlight only selected procedural information from this joint proxy statement and prospectus. They do not contain all of the information that may be important to you. You should carefully read this entire document to fully understand the Merger Agreement and the transactions contemplated thereby, including the Merger, and the voting procedures for the MCG and PFLT special meetings. Unless otherwise indicated in this joint proxy statement and prospectus or the context otherwise requires, throughout this joint proxy statement and prospectus refers to PennantPark Floating Rate Capital Ltd. and, where applicable, its consolidated subsidiary, PennantPark Floating Rate Funding I, LLC, or Funding I, as PFLT; PFLT's investment adviser, PennantPark Investment Advisers, LLC as the PFLT Investment Adviser; PFLT's administrator, PennantPark Investment Administration, LLC, as PFLT Administrator; MCG Capital Corporation and, where applicable, its consolidated subsidiaries as MCG; PFLT Panama, LLC, a wholly owned subsidiary of PFLT, as Sub One; PFLT Funding II, LLC, a wholly owned subsidiary of PFLT, as Sub Two; the merger of Sub One with and into MCG as the Initial Merger; the Merger of MCG with and into Sub Two as the Second Merger; the Initial Merger and Second Merger collectively as the Merger; the effective time of the Merger as the effective time; the Agreement and Plan of Merger, as may be amended from time to time, dated as of April 28, 2015, among PFLT, MCG, Sub One, Sub Two, and for limited purposes, the PFLT Investment Adviser as the Merger Agreement; Code refers to the Internal Revenue Code of 1986, as amended; RIC refers to a regulated investment company under the Code; 1940 Act refers to the Investment Company Act of 1940, as amended; BDC refers to a business development company under the 1940 Act; and Credit Facility refers to PFLT's secured revolving credit facility, as amended.

**Q: Why am I receiving these materials?**

**A:** MCG and PFLT are sending these materials to their respective stockholders to help them decide how to vote their shares of MCG Common Stock or PFLT Common Stock at their respective special meetings. At the MCG special meeting, MCG stockholders will be asked to vote on a proposal to approve the Merger and the Merger Agreement or approval to adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal. At the PFLT special meeting, PFLT stockholders will be asked to vote on the issuance of PFLT Common Stock pursuant to the Merger or approval to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal. Information about these meetings and the Merger is contained in this joint proxy statement and prospectus.

The boards of directors of MCG has unanimously approved the Merger and the Merger Agreement as in the best interests of MCG and their stockholders. Please see the section entitled Reasons for the Merger for an important discussion of the Merger.

This joint proxy statement and prospectus summarizes the information regarding the matters to be voted upon at the special meetings of MCG and PFLT. However, you do not need to attend your special meeting to vote your shares. You may simply sign the enclosed proxy and return it promptly in the envelope provided or vote by telephone or through the Internet. Instructions are shown on the proxy card. **It is very important that you vote your shares at your special meeting. The Merger cannot be completed unless MCG stockholders approve the Merger and the Merger Agreement and PFLT stockholders approve the issuance of PFLT Common Stock pursuant to the Merger.**

If you hold some or all of your shares in a brokerage account, your broker will not be permitted to vote your shares unless you provide them with instructions on how to vote your shares. For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend your special meeting and vote your shares in person.

Stockholders are urged to vote by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details. If your broker holds your shares and

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you attend your special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the special meeting.

If you are an MCG stockholder and do not provide your broker with instructions or attend the MCG special meeting, it will have the same effect as a vote against approval of the Merger and the Merger Agreement.

**Q: When and where is the MCG special meeting?**

**A:** The MCG special meeting will take place on [ ], 2015 at [ ], Eastern Time, at [ ], [ ], [ ], [ ].

**Q: When and where is the PFLT special meeting?**

**A:** The PFLT special meeting will take place on [ ], 2015 at [ ], Eastern Time, at the offices of Dechert LLP, 1095 Avenue of the Americas, New York, NY 10036.

**Q: What is happening at the MCG special meeting?**

**A:** MCG stockholders are being asked to consider and vote on the following matters at their special meeting:

a proposal to approve the Merger and the Merger Agreement; and

a proposal to approve the adjournment of the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal.

**Q: What is happening at the PFLT special meeting?**

**A:** PFLT stockholders are being asked to consider and vote on the following matters at their special meeting:

a proposal to approve the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement; and

a proposal to approve the adjournment of the PFLT special meeting, if necessary or appropriate, to solicit additional proxies, if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.

**Q: What will happen in the Merger?**

**A:** Subject to the terms and conditions of the Merger Agreement, the transactions contemplated by the Merger Agreement will be accomplished in two steps. In the first step, Sub One will merge with and into MCG and the separate corporate existence of Sub One will cease. Immediately thereafter and part of a single integrated transaction, MCG will merge with and into Sub Two and the separate corporate existence of MCG will cease. Sub Two will be the surviving entity and will continue as a wholly owned subsidiary of PFLT.

**Q: What will MCG stockholders receive in the Merger?**

**A:** Holders of MCG Common Stock (including shares of restricted MCG Common Stock which will vest upon the effective time) will have a right to receive \$4.521 in shares of PFLT Common Stock for each share of MCG Common Stock held immediately prior to the Initial Merger, as well as \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock).

On April 28, 2015, the last full trading day before the public announcement of the Merger, the closing price of PFLT Common Stock on the NASDAQ Global Select Market, or NASDAQ, was \$14.15. On [ ], 2015, the last trading day prior to the printing of this joint proxy statement and prospectus, the closing price of shares of PFLT

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Common Stock on NASDAQ was \$[ ], and the closing price of MCG Common Stock on NASDAQ was \$[ ]. Until the Merger is completed, the value of the shares of PFLT Common Stock to be issued in the Merger and the number of shares of PFLT Common Stock to be issued to MCG stockholders will continue to fluctuate.

**Q: Who is responsible for paying the expenses relating to completing the Merger, including the preparation of this joint proxy statement and prospectus and the solicitation of proxies?**

**A:** In general, MCG and PFLT will each be responsible for their own expenses incurred in connection with the completion of the transactions contemplated by the Merger Agreement. However, the costs and expenses of any regulatory filing, including the registration statement (of which this joint proxy statement and prospectus forms a part) will be paid by PFLT and all fees paid to prepare and mail this joint proxy statement and prospectus and the registration statement (of which this joint proxy statement and prospectus forms a part), and to conduct the special meetings of PFLT and MCG, will be borne equally by PFLT and MCG. The costs borne by MCG related to this transaction will be indirectly reimbursed by the PFLT Investment Adviser through its payment of the cash consideration to MCG stockholders.

**Q: Are MCG stockholders able to exercise dissenters' rights?**

**A:** Yes. MCG stockholders will be entitled to exercise dissenters' rights. Under Section 262 of the Delaware General Corporation Law, or the DGCL, dissenting MCG stockholders are entitled to appraisal rights provided that such MCG stockholders meet the conditions under Section 262 of the DGCL. Dissenting MCG stockholders are entitled to have the fair value of their MCG Common Stock determined by the Delaware Court of Chancery and to receive payment based on that valuation. The ultimate amount dissenting MCG stockholders will receive in an appraisal proceeding may be less than, equal to or more than the amount such dissenting MCG stockholders would have received under the Merger Agreement. The text of the provisions of the DGCL pertaining to dissenters' rights is attached to this joint proxy statement and prospectus as *Annex D*.

**Q: Are PFLT stockholders able to exercise dissenters' rights?**

**A:** No. PFLT stockholders will not be entitled to exercise dissenters' rights with respect to any matter to be voted upon at their special meeting. Any PFLT common stockholder may abstain from voting or vote against any of such matters.

**Q: When do you expect to complete the Merger?**

**A:** While there can be no assurance as to the exact timing, or that the Merger will be completed at all, PFLT and MCG are working to complete the Merger in the third quarter of 2015. It is currently expected that the Merger will be completed promptly following receipt of the required stockholder approvals at the MCG and PFLT special meetings and satisfaction of the other closing conditions set forth in the Merger Agreement.

**Q: Is the Merger expected to be taxable to MCG stockholders?**

**A:** Yes. The Merger is expected to be a taxable event for MCG stockholders.

**Q: Is the Merger expected to be taxable to PFLT stockholders?**

**A:** No. The Merger is not expected to be a taxable event for PFLT stockholders.

**Q: What MCG stockholder vote is required to approve the Merger and the Merger Agreement?**

**A:** At least a majority of the outstanding shares of MCG Common Stock outstanding and entitled to vote on the matter is required to approve the Merger and the Merger Agreement. Stockholders who abstain or who fail to return their proxies, and do not instruct the proxy solicitor on how to cast their vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card or vote at the MCG special meeting, will have the same effect as if they voted against the Merger Agreement and the Merger.

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**Q: What PFLT common stockholder vote is required to approve the issuance of PFLT Common Stock pursuant to the Merger?**

**A:** Approval of the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement requires the vote of at least a majority of the votes cast by holders of shares of PFLT Common Stock at a meeting at which a quorum is present.

**Q: Does PFLT's board of directors recommend approval of the issuance of PFLT Common Stock pursuant to the Merger and the proposal to adjourn the PFLT special meeting if necessary?**

**A:** Yes. PFLT's board of directors, including its independent directors, unanimously approved the Merger and the Merger Agreement, including the issuance of PFLT Common Stock in connection therewith, and recommends that PFLT stockholders vote FOR approval of the issuance of PFLT Common Stock to be issued pursuant to the Merger Agreement and FOR approval of the proposal to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.

**Q: Does MCG's board of directors recommend approval of the Merger and the proposal to adjourn the MCG special meeting if necessary?**

**A:** Yes. MCG's board of directors, including its independent directors, unanimously approved the Merger and the Merger Agreement and recommends that MCG stockholders vote FOR approval of the Merger and the Merger Agreement and FOR approval of the proposal to adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the proposal.

**Q: If I am a PFLT stockholder, how do I vote my shares?**

**A:** You may indicate how you want to vote on your proxy card and then sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the PFLT special meeting. You may also instruct the proxy solicitor on how to cast your vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card. If you are a record stockholder, you may also attend the PFLT special meeting in person instead of submitting a proxy.

Unless your shares are held in a brokerage account, if you sign, date and send your proxy and do not indicate how you want to vote, your proxy will be voted FOR the approval of the issuance of PFLT Common Stock pursuant to the Merger and FOR approval of the proposal to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal. If your shares are held in a brokerage account or in street name, please see the answer to the next question.

If you fail to (1) return your proxy card, (2) instruct the proxy solicitor on how to cast your vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card or (3) vote at the PFLT special meeting, or if you abstain, there will be no effect on the vote for either proposal.

**Q: If I am an PFLT stockholder and some or all of my shares are held in a brokerage account, or in street name, will my broker vote my shares for me?**

**A:** No. With respect to the issuance of PFLT Common Stock pursuant to the Merger and the adjournment proposal, if you do not provide your broker with instructions on how to vote your street name shares, your broker will not be permitted to vote them.

For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend the PFLT special meeting and vote your shares in person. With respect to the proposal to approve the issuance of



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shares of PFLT Common Stock pursuant to the Merger, broker shares for which written authority to vote has not been obtained will not be treated as votes cast on the matter and will have no effect on the vote on such proposal.

Stockholders are urged to vote by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details.

If your broker holds your shares and you attend the PFLT special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the PFLT special meeting.

### **Q: If I am an MCG stockholder, how do I vote my shares?**

**A:** You may indicate how you want to vote on your proxy card and then sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the MCG special meeting. You may instruct the proxy solicitor on how to cast your vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card. If you are a record stockholder, you may also attend the MCG special meeting in person instead of submitting a proxy.

Unless your shares are held in a brokerage account, if you sign, date and send your proxy and do not indicate how you want to vote, your proxy will be voted **FOR** the approval of the Merger and the Merger Agreement and **FOR** approval of the proposal to adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the proposal. If your shares are held in a brokerage account, or in **street name**, please see the answer to the next question.

If you fail to (1) return your proxy card, (2) instruct the proxy solicitor on how to cast your vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card or (3) vote at the MCG special meeting, or if you **abstain**, it has the effect of a vote **AGAINST** the proposal to approve the Merger and the Merger Agreement but there will be no effect on the proposal to adjourn the meeting.

### **Q: If I am an MCG stockholder and some or all of my shares are held in a brokerage account, or in **street name**, will my broker vote my shares for me?**

**A:** No. With respect to the Merger and adjournment proposals, if you do not provide your broker with instructions on how to vote your street name shares, your broker will not be permitted to vote them.

For this reason, you should provide your broker with instructions on how to vote your shares or arrange to attend the MCG special meeting and vote your shares in person. If you do not provide your broker with instructions or attend the MCG special meeting, there will be no effect on the vote for either proposal. Stockholders are urged to vote by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details. If your broker holds your shares and you attend the MCG special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the MCG special meeting.

### **Q: Whom can I contact with any additional questions?**

**A:** If you are a PFLT stockholder, you may call the PFLT proxy solicitor, AST Fund Solutions, at ([ ]) [ ]-[ ], with respect to any additional questions you may have. If you are an MCG stockholder, you may call the MCG proxy solicitor, MacKenzie Partners, Inc., with respect to any additional questions you may have.

**Q: Where can I find more information about PFLT and MCG?**

**A:** You can find more information about PFLT and MCG in the documents described under the caption Where You Can Find More Information.

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**SUMMARY**

This summary highlights some of the information contained elsewhere in this joint proxy statement and prospectus. It is not complete and may not contain all of the information that you may want to consider. PFLT urges you to read carefully this entire document, including Risk Factors beginning on page 25, and the other documents to which PFLT refers you to for a more complete understanding of the Merger. See Where You Can Find More Information. Each item in this summary includes a page reference directing you to a more complete description of that item.

**The Parties to the Merger**

*PennantPark Floating Rate Capital Ltd.*

*PennantPark Investment Advisers, LLC*

*PFLT Panama, LLC*

*PFLT Funding II, LLC*

590 Madison Avenue

15<sup>th</sup> Floor

New York, NY 10022

(212) 905-1000

*MCG Capital Corporation*

1001 19<sup>th</sup> Street North

10<sup>th</sup> Floor

Arlington, VA 22209

(703) 247-7500

**Organization and Structure of PFLT**

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

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

PFLT believes that Floating Rate Loans to U.S. middle-market companies offer attractive risk adjusted returns due to a limited amount of capital available for such companies and the potential for rising interest rates. PFLT uses the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. PFLT's 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. PFLT's debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

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Under normal market conditions, PFLT generally expects that at least 80% of the value of its net assets plus any borrowings for investment purposes, or Managed Assets, will be invested in Floating Rate Loans and other investments bearing a variable-rate of interest. PFLT generally expects that senior secured loans, or first lien loans, will represent at least 65% of its overall portfolio. PFLT also generally expects to invest up to 35% of its 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. PFLT's investment size may generally range between \$1 million and \$15 million, on average, although it expects that this investment size will vary proportionately with the size of its capital base.

PFLT's 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 it makes. PFLT has used, and expects to continue to use, its Credit Facility, proceeds from the rotation of its portfolio and proceeds from public and private offerings of securities to finance its investment objectives.

Funding I, PFLT's wholly owned subsidiary and a special purpose entity, was organized in Delaware as a limited liability company in May 2011 and was formed in order to establish the Credit Facility.

Sub One and Sub Two are Delaware limited liability companies and newly formed wholly owned subsidiaries of PFLT. Sub One and Sub Two were formed in connection with and for the sole purpose of effecting the Merger.

## **Organization and Structure of MCG**

MCG was incorporated in Delaware in 1998. On March 18, 1998, MCG changed its name from MCG, Inc. to MCG Credit Corporation and, on June 14, 2001, to MCG Capital Corporation. MCG is an internally managed, non-diversified, closed-end investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes it has elected to be treated, and intends to qualify annually, as a RIC under the Code.

MCG is a solutions-focused commercial finance company that provides capital and advisory services to lower middle-market companies throughout the United States. Generally, MCG's portfolio companies use MCG's capital investment to finance acquisitions, recapitalizations, buyouts, organic growth, working capital and other general corporate purposes.

MCG is an internally managed, non-diversified, closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC MCG must meet various regulatory tests, which include investing at least 70% of its total assets in private or thinly traded public U.S.-based companies and limitations on MCG's ability to incur indebtedness unless immediately after such borrowing MCG has an asset coverage for total borrowings of at least 200% (i.e., the amount of debt generally may not exceed 50% of the value of MCG's assets).

In addition, MCG has elected to be treated for federal income tax purposes as a regulated investment company, or RIC, under Subchapter M of the Code. In order to continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, MCG must meet certain requirements, including certain minimum distribution requirements. If the company satisfies these requirements, MCG generally will not have to pay corporate-level taxes on any income it distributes to its stockholders as distributions, allowing MCG to substantially reduce or eliminate its corporate-level tax liability. From time to time, MCG's wholly owned subsidiaries may execute transactions that trigger corporate-level tax liabilities. In such cases, MCG recognizes a tax provision in the period when it becomes more likely than not that the taxable event will occur.



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Pursuant to the terms of the Merger Agreement, in the Merger, Sub One will be merged with and into MCG and, immediately thereafter and as a single integrated transaction, MCG will be merged with and into Sub Two. Sub Two will be the surviving entity of the Merger as a wholly owned subsidiary of PFLT.

Based on the number of shares of PFLT Common Stock issued and outstanding at the closing of the Merger, or the Closing Date, it is expected PFLT stockholders will own approximately 56% of PFLT Common Stock and MCG stockholders will own approximately 44% of PFLT Common Stock. As a result of the Merger, PFLT will continue its operations as conducted before the Merger.

The Merger Agreement is attached as *Annex A* to this joint proxy statement and prospectus and is incorporated by reference into this joint proxy statement and prospectus. MCG and PFLT encourage their respective stockholders to read the Merger Agreement carefully and in its entirety, as it is the principal legal document governing the Merger.

**Consideration**

If the Merger is consummated, each share of MCG Common Stock outstanding immediately prior to the effective time (including shares of restricted MCG Common Stock which will vest upon the effective time) will be converted into the right to receive \$4.521 in shares of PFLT Common Stock, subject to the payment of cash instead of fractional shares, and cash in the amount of \$0.226 (subject to upward adjustment based on the market price of PFLT Common Stock).

**Comparative Market Price of Securities**

PFLT Common Stock trades on NASDAQ under the symbol PFLT. MCG Common Stock trades on NASDAQ under the symbol MCGC.

The following table presents the closing prices and most recently determined net asset values, or NAV, per share of PFLT Common Stock and MCG Common Stock on the last trading day before public announcement of the Merger and the last trading day prior to mailing of this joint proxy statement and prospectus.

	<b>PFLT Common Stock</b>	<b>MCG Common Stock</b>
Closing Price at April 28, 2015	\$ 14.15	\$ 4.10
NAV per Share at March 31, 2015	\$ 14.30	\$ 4.75
Closing Price at [ ], 2015	\$	\$

The value of PFLT Common Stock to be received in the Merger will continue to fluctuate and, as a result, MCG stockholders will not know how many shares of PFLT Common Stock they will receive in the Merger at the time they vote.

**Reasons for the Merger**

***PFLT***

PFLT's board of directors met several times to formally discuss and consider matters relating to the proposed Merger and Merger Agreement. During the course of these meetings, and in informal discussions with PFLT management, PFLT's board of directors requested, received and discussed information from



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representatives of management, the PFLT Investment Adviser, as well as PFLT's financial, legal and other advisors, regarding the strategic rationale for the proposed Merger, the potential benefits and drawbacks of the proposed Merger and Merger Agreement, the potential benefits and costs of the proposed Merger and the duties of PFLT's board of directors in connection with the proposed Merger. PFLT's board of directors approved the proposed Merger and Merger Agreement at a meeting on April 28, 2015. In reaching its determination that the Merger is in PFLT's best interests and the best interests of PFLT's stockholders, the PFLT board of directors considered a number of factors presented at that meeting or at a prior meeting, including the following:

*Improved Scale.* The Merger is anticipated to enhance PFLT's ability to provide capital to financial sponsors and borrowers, which may expand PFLT's reputation in the marketplace. With the ability to make larger investments, PFLT expects to add more value to financial sponsors and borrowers and to negotiate better terms for its portfolio investments.

*Greater Diversification.* The Merger should provide PFLT with a substantially larger asset base initially comprised primarily of cash which may provide the PFLT Investment Adviser with greater investment flexibility and investment options for PFLT, including the potential for greater diversification of portfolio investments, economies of scale and flexibility to manage PFLT's leverage while maintaining an appropriate risk profile for PFLT stockholders.

*Increased Market Capitalization and Additional Market Coverage.* As the Merger may almost double PFLT's market capitalization, there is the potential for greater secondary market liquidity for PFLT Common Stock, which may result in tighter bid-ask spreads and increased trading volume. In addition, a larger asset base and access to more financial sponsors could result in additional market coverage of PFLT and, potentially, an increased focus by current and potential investors on PFLT.

*Reduction in Expense Ratio.* As a result of the Merger, PFLT's fixed costs (e.g., printing and mailing of periodic reports and proxy statements, legal expenses, audit fees and other expenses) are anticipated to be spread across a larger asset base. As a result, the total annual operating expenses borne by PFLT stockholders is expected to be reduced.

*Dilution to PFLT Stockholders.* Although there will be no dilution to per share NAV as PFLT is not authorized to issue PFLT Common Stock at less than NAV, the proposed transaction is anticipated to result in some dilution to the earnings per share of PFLT Common Stock in the shorter-term, due to the period expected to be required to redeploy MCG's cash and cash equivalents. The PFLT board of directors considered information provided by management and KBW as to current expectations for when the MCG assets acquire in the Merger would be fully invested and the ability of PFLT to start returning to PFLT stockholders net investment income in excess of the dilution resulting from the Merger.

*Expected Costs of the Proposed Merger.* The PFLT board of directors considered the costs to be borne by PFLT, regardless of whether the Merger is consummated, including its legal and financial adviser fees. The PFLT board of directors considered the costs to be borne by PFLT in light of the potential benefits of the

Merger and noted that the PFLT Investment Adviser anticipated that the projected costs of the consummated Merger may be recovered over time. The PFLT board of directors also considered the fact that the PFLT Investment Adviser would be paying \$0.226 in cash per MCG common share and would also pay an additional amount in cash if the Merger share price is less than PFLT's closing NAV.

*Distributions to PFLT Stockholders.* The Merger is not expected to reduce PFLT's earnings such that PFLT would not be able to maintain current distribution rates to its stockholders. As a result of additional investment opportunities and flexibility due to the increase in assets from the acquisition of MCG, PFLT is expected to be able to continue to pay steady distributions to its stockholders and, after the ramp up period to invest the cash received in the Merger, increase distributions paid to PFLT stockholders.

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*Compliance with Regulatory Obligations.* The Merger should not affect the ability of PFLT to comply with its regulatory obligations, including its ability to maintain appropriate leverage and continue to operate in compliance with the asset coverage requirements set forth in the 1940 Act and to pay dividends required of RICs.

*Tax Considerations.* The taxable nature of the Merger was not expected to have a material effect on PFLT or its stockholders. MCG's significant capital loss carryforwards were not expected to be of material benefit to PFLT, so any restriction on the ability to utilize them as a result of the Merger was of limited importance.

*Opinion of PFLT's Financial Advisor.* The financial presentation, dated April 28, 2015, of KBW to the PFLT board of directors and the KBW Opinion, dated April 28, 2015, to the PFLT board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to PFLT of the stock consideration in the Initial Merger, as more fully described below under *Opinion of PFLT's Financial Advisor*.

The foregoing list does not include all the factors that PFLT's board of directors considered in approving the proposed Merger and Merger Agreement and recommending that PFLT stockholders approve the issuance of PFLT Common Stock necessary to effectuate the proposed Merger. For a further discussion of the material factors considered by PFLT's board of directors, see *The Merger Reasons for the Merger*.

***MCG***

MCG's board of directors consulted with representatives of management, as well as MCG's financial and legal advisors and considered numerous factors, including the ones described below, and, as a result, determined that the Merger is in MCG's best interest and the best interests of MCG's stockholders.

Certain material factors considered by MCG's board of directors, including its independent directors, include, among others:

Thorough Review of Strategic Alternatives;

Value Provided by the PFLT Transaction;

Resumption of Dividend Payments;

Strategic and Business Considerations;

Diversity of PFLT's Portfolio;

Low Risk Profile of PFLT's Portfolio;

Compatibility with Existing Investments;

Favorable Capital Structure;

Consistency of Earnings;

Low Cost Structure; and

Compatible Stockholder Base.

The foregoing list does not include all the factors that MCG's board of directors considered in approving the Merger Agreement and the Merger and recommending that MCG stockholders approve the Merger Agreement and the Merger. For a further discussion of the material factors considered by MCG's board of directors, see "The Merger" Reasons for the Merger.

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**Risks Relating to the Proposed Merger**

The Merger and the other transactions contemplated by the Merger Agreement are subject to the following risks. MCG and PFLT stockholders should carefully consider these risks before deciding how to vote on the proposals to be voted on at their respective special meetings. See Risk Factors Risks Relating to the Merger below for a more detailed discussion of these factors.

MCG stockholders and PFLT stockholders will experience a reduction in percentage ownership and voting power as a result of the Merger.

PFLT may be unable to realize the benefits anticipated by the Merger, including the estimated cost savings, or it may take longer than anticipated to achieve such benefits.

The Merger may trigger certain change of control provisions and other restrictions in contracts of PFLT and the failure to obtain any required consents or waivers could adversely impact the combined company.

The opinions delivered to the boards of directors of MCG and PFLT by the parties' respective financial advisors will not reflect changes in circumstances between signing the Merger Agreement and completion of the Merger.

Termination of the Merger Agreement or the failure to close the Merger could negatively impact MCG and PFLT.

Under certain circumstances, MCG and PFLT are obligated to pay each other a termination fee upon termination of the Merger Agreement.

The Merger Agreement limits MCG's ability to pursue alternatives to the Merger.

The Merger is subject to closing conditions, including stockholder approvals, that, if not satisfied or waived, will result in the Merger not being completed, which may result in material adverse consequences to MCG's business and operations.

Certain persons related to MCG have interests in the Merger that differ from the interests of MCG stockholders.

PFLT may not immediately use the assets it acquires in the Merger to make additional investments in existing portfolio companies or make investments in new portfolio companies.

MCG will be subject to business uncertainties and contractual restrictions while the Merger is pending.

The shares of PFLT Common Stock to be received by MCG stockholders as a result of the Merger will have different rights associated with them than shares of MCG Common Stock currently held by them.

The market price of PFLT Common Stock after the Merger may be affected by factors different from those affecting MCG Common Stock or PFLT Common Stock currently.

**Special Meeting of PFLT Stockholders**

PFLT plans to hold its special meeting of common stockholders on [ ], 2015 at [ ], Eastern Time, at the offices of Dechert LLP, 1095 Avenue of the Americas, New York, NY 10036. At the PFLT special meeting, holders of PFLT Common Stock will be asked to:

approve the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement; and

adjourn the PFLT special meeting, if necessary, to solicit additional proxies in favor of the foregoing proposal.

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You can vote at the PFLT special meeting if you owned PFLT Common Stock at the close of business on [ ], 2015. As of that date, there were approximately 14,898,056 shares of PFLT Common Stock outstanding and entitled to vote, 237,759 of which, or 1.6%, were owned beneficially or of record by directors and officers of PFLT.

### **Special Meeting of MCG stockholders**

MCG plans to hold its special meeting of common stockholders on [ ], 2015 at [ ], Eastern Time, at [ ], [ ], [ ], [ ]. At the MCG special meeting, holders of MCG Common Stock will be asked to:

approve the Merger and the Merger Agreement; and

adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies in favor of the foregoing proposal.

You can vote at the MCG special meeting if you owned MCG Common Stock at the close of business on [ ], 2015. As of that date, there were approximately [ ] shares of MCG Common Stock outstanding and entitled to vote. Approximately [ ] of such total outstanding shares, or [ ] %, were owned beneficially or of record by directors and officers of MCG.

### **PFLT's Financial Advisor Has Provided an Opinion to PFLT's Board of Directors Regarding the Fairness From a Financial Point of View to PFLT of the Stock Consideration in the Initial Merger**

In connection with the Merger, PFLT's financial advisor, Keefe, Bruyette & Woods, Inc., or KBW, delivered a written opinion, dated April 28, 2015, or the KBW Opinion, to PFLT's board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to PFLT of the stock consideration in the Initial Merger. The full text of the KBW Opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the KBW Opinion, is attached as Annex C to this joint proxy statement and prospectus. **The opinion was for the information of, and was directed to, the PFLT board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The KBW Opinion did not address the underlying business decision of PFLT to engage in the Merger or enter into the Merger Agreement or constitute a recommendation to the PFLT board of directors in connection with the Merger, and it does not constitute a recommendation to any holder of PFLT Common Stock or any stockholder of any other entity as to how to vote in connection with the Merger or any other matter.**

### **Morgan Stanley Has Provided an Opinion to MCG's Board of Directors Regarding the Merger**

Morgan Stanley & Co. LLC, which is referred to as Morgan Stanley, was retained by the MCG board of directors to act as its financial advisor in connection with the proposed Merger. On April 28, 2015, Morgan Stanley rendered its oral opinion, which was subsequently confirmed in writing, to the MCG board of directors to the effect that, as of that date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in the written opinion, the merger consideration to be received by the holders of shares of MCG Common Stock (including shares of MCG Common Stock that will vest in full upon the closing of the Merger, which are referred to as the MCG Restricted Common Stock, but excluding (i) shares owned by MCG as treasury stock, (ii) shares owned by PFLT, (iii) subject to certain exceptions, shares owned by wholly owned subsidiaries of MCG or PFLT and (iv) shares owned by MCG

stockholders who are entitled to and who properly exercise and perfect appraisal rights under Delaware law) pursuant to the Merger Agreement was fair from a financial point of view to the holders of shares of MCG Common Stock.



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The full text of the written opinion of Morgan Stanley to the MCG board of directors, dated as of April 28, 2015, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion, is attached to this joint proxy statement and prospectus as *Annex B*, and is incorporated by reference into this joint proxy statement and prospectus in its entirety. The summary of the opinion of Morgan Stanley in this joint proxy statement and prospectus is qualified in its entirety by reference to the full text of the opinion. You are encouraged to read Morgan Stanley's opinion and the section below captioned "The Merger Opinion of Morgan Stanley & Co. LLC" summarizing Morgan Stanley's opinion carefully and in their entirety. Morgan Stanley's opinion was directed to the MCG board of directors, in its capacity as such, and addressed only the fairness from a financial point of view of the merger consideration to be received by the holders of shares of MCG Common Stock (including shares of MCG Restricted Common Stock, but excluding (i) shares owned by MCG as treasury stock, (ii) shares owned by PFLT, (iii) subject to certain exceptions, shares owned by wholly owned subsidiaries of MCG or PFLT and (iv) shares owned by MCG stockholders who are entitled to and who properly exercise and perfect appraisal rights under Delaware law) pursuant to the Merger Agreement, as of the date of the opinion, and did not address any other aspects or implications of the Merger. It was not intended to, and does not, constitute advice or a recommendation to any stockholder of MCG or PFLT as to how to vote at any stockholders' meeting to be held pursuant to the Merger or whether to take any other action with respect to the Merger.

**PFLT's Board of Directors Unanimously Recommends That PFLT Stockholders Vote FOR Approval of the Issuance of PFLT Common Stock pursuant to the Merger**

PFLT's board of directors, including its independent directors, unanimously approved the Merger and the Merger Agreement, including the issuance of PFLT Common Stock in connection therewith, and recommends that PFLT stockholders vote FOR approval of the issuance of the PFLT Common Stock to be issued pursuant to the Merger Agreement and FOR approval of the proposal to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.

**MCG's Board of Directors Unanimously Recommends That MCG Stockholders Vote FOR Approval of the Merger and the Merger Agreement**

MCG's board of directors, including its independent directors, believes that the Merger is advisable and in the best interest of MCG's stockholders and unanimously recommends that its stockholders vote FOR approval of the Merger and the Merger Agreement, and FOR approval of the proposal to adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal.

**Votes Required to Approve the Merger and Merger Agreement**

The affirmative vote of the holders of at least a majority of the outstanding shares of MCG's outstanding shares entitled to vote is required to approve the Merger and the Merger Agreement. Stockholders who abstain or who fail to return their proxies, and do not instruct the proxy solicitor on how to cast their vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card or vote at the MCG special meeting, will have the same effect as if they voted AGAINST the Merger Agreement and the Merger.

**Votes Required to Approve the Issuance of Shares of PFLT Common Stock Pursuant to the Merger Agreement**

The affirmative vote of at least a majority of the votes cast by holders of PFLT Common Stock at a meeting at which a quorum is present is required to approve the issuance of the shares of PFLT Common Stock to be

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issued pursuant to the Merger Agreement. Stockholders who abstain or who fail to return their proxies, and do not instruct the proxy solicitor on how to cast their vote by calling the proxy solicitor or via the Internet pursuant to the instructions shown on the proxy card or vote at the MCG special meeting, will have no effect on the result of the vote.

### **Completion of the Merger**

While there can be no assurances as to the exact timing, or that the Merger will be completed at all, MCG and PFLT are working to complete the Merger in the third quarter of 2015. As more fully described in this joint proxy statement and prospectus and in the Merger Agreement, the completion of the Merger depends on a number of conditions being satisfied or, where legally permissible, waived.

### **Conditions That Must Be Satisfied or Waived for the Merger to Occur**

As more fully described in the Merger Agreement, the obligations of MCG and PFLT to complete the Merger are subject to the satisfaction or, where permissible, waiver of certain conditions including the following:

the approvals of MCG and PFLT stockholders are obtained at their respective special meetings;

the registration statement, of which this joint proxy statement and prospectus forms a part, has become effective and no stop order suspending its effectiveness has been issued and no proceedings for that purpose have been initiated by the SEC;

no order or law preventing or making illegal the consummation of the Merger or any of the other transactions contemplated by the Merger Agreement is in effect; and

the truth and accurateness of the representations and warranties of each other party in the Merger Agreement, subject to the materiality standards provided in the Merger Agreement.

### **Termination of the Merger Agreement**

The Merger Agreement contains certain termination rights for MCG or PFLT, as applicable, including if:

the parties mutually agree to terminate;

the Merger has not been completed by January 28, 2016;

a governmental entity has issued a final and non-appealable order or promulgated a law prohibiting or making illegal the Merger or any of the other transactions contemplated by the Merger Agreement;

the stockholders of MCG fail to approve the Merger and the Merger Agreement;

the stockholders of PFLT fail to approve the issuance of PFLT Common Stock pursuant to the Merger; or

MCG receives a superior offer to the terms of the Merger Agreement to acquire MCG by a third-party;

**Termination Fee**

The Merger Agreement provides that, in connection with the termination of the Merger Agreement under specified circumstances, MCG may be required to pay PFLT a termination fee of \$7 million and PFLT may be required to pay MCG a reverse termination fee of \$7 million. See [Description of the Merger Agreement - Termination of the Merger Agreement](#) for a discussion of the circumstances that could result in the payment of a termination fee.

**Table of Contents****COMPARATIVE FEES AND EXPENSES**

The following tables are intended to assist you in understanding the costs and expenses that an investor in the common stock of PFLT or MCG bears directly or indirectly and PFLT's costs and expenses that are expected to be incurred in the first year following the Merger. PFLT and MCG caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this document contains a reference to fees or expenses paid or to be paid by you, PFLT, or MCG stockholders will indirectly bear such fees or expenses as investors in PFLT or MCG, as applicable.

	Actual		Pro
	PFLT	MCG	Forma Combined
<b><i>Stockholder transaction expenses</i></b> (as a percentage of offering price)			
Sales load paid by PFLT and MCG	None <sup>(1)</sup>	None <sup>(1)</sup>	None <sup>(1)</sup>
Offering expenses borne by PFLT and MCG	None <sup>(1)</sup>	None <sup>(1)</sup>	None <sup>(1)</sup>
Dividend reinvestment plan expenses	None <sup>(2)</sup>	None <sup>(2)</sup>	None <sup>(2)</sup>
Total stockholder transaction expenses paid by PFLT and MCG	None	None	None

	Actual		Pro
	PFLT	MCG	Forma Combined
<b><i>Estimated annual expenses</i></b> (as a percentage of consolidated net assets attributable to common stock) <sup>(3), (4)</sup> :			
Management fees <sup>(5)</sup>	1.63%	%	1.12%
Incentive fees <sup>(6)</sup>	0.97%	%	0.55%
Interest payments on borrowed funds <sup>(7)</sup>	1.56%	%	0.88% <sup>(8)</sup>
Other expenses <sup>(9)</sup>	1.04%	5.94%	2.19%
Total annual expenses (estimated) <sup>(10)</sup>	5.20%	5.94%	4.74%

(1) Purchases of shares of PFLT Common Stock or MCG Common Stock on the secondary market are not subject to sales charges, but may be subject to brokerage commissions or other charges. The table does not include any sales load (underwriting discount or commission) that stockholders may have paid in connection with their purchase of shares of PFLT Common Stock or MCG Common Stock. If there are any expenses in connection with the offering, they will be determined at the closing date.

(2) PFLT maintains an "opt out" dividend reinvestment plan for its common stockholders. As a result, if PFLT declares a distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of its common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions. The expenses of the dividend reinvestment plan are included in "Other expenses."

- (3) Consolidated net assets attributable to common stock equals net assets at March 31, 2015. For the Pro Forma Combined column, the net assets of PFLT on a pro forma basis as of March 31, 2015 were used. See PFLT's Pro Forma Condensed Consolidated Financial Statements for more information.
- (4) MCG is an internally managed BDC, under the supervision of its board of directors, and therefore pays operating costs associated with employing a management team and investment professionals instead of paying an investment advisory fee. As a result, the estimated annual expenses MCG incurs in connection with the employment of such employees is included in the line item Other expenses and, accordingly, any comparison of the individual items of MCG and PFLT set forth under Estimated annual expenses above may not be useful because PFLT, in contrast to MCG, is externally managed. The pro forma combined company's estimated annual expenses are consistent with the information presented in the Unaudited Pro Forma Condensed Consolidated Financial Statements included herein.
- (5) PFLT is externally managed by the PFLT Investment Adviser. Following completion of the Merger, the combined company will continue to be externally managed by the PFLT Investment Adviser. The pro forma combined company management fee has been calculated in a manner consistent with the PFLT Investment Management Agreement. PFLT's contractual management fee is calculated at an annual rate of 1.00% of its average adjusted gross assets at the end of the two most recently completed calendar quarters. PFLT has assumed that the base management fee remains at 1.00% as set forth in the current PFLT Investment Management Agreement. Unless terminated earlier, the PFLT Investment Management Agreement will remain in effect if approved annually by its board of directors, or

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by the affirmative vote of the holders of a majority of its outstanding voting securities, including, in either case, approval by a majority of its directors who are not interested persons of PFLT or the PFLT Investment Adviser. Under the 1940 Act, any material change to the PFLT Investment Management Agreement must be submitted to PFLT's stockholders for approval. See [Certain Relationships and Related Transactions of PFLT PFLT Investment Management Agreement](#) for more information.

- (6) The portion of incentive fees paid to PFLT Investment Adviser with respect to net investment income and capital gains, if any, is based on actual amounts incurred during the six months ended March 31, 2015, annualized for a full year. Such incentive fees are based on performance, vary from period to period and are not paid unless PFLT's performance exceeds specified thresholds. The portion of PFLT's 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 PFLT Investment Management Agreement, as of the termination date) and equals 20.0% of its realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For purposes of this chart and PFLT's Consolidated Financial Statements, its incentive fees on capital gains are calculated in accordance with U.S. generally accepted accounting principles, or GAAP. For purposes of pro forma incentive fees on capital gains, we have assumed no additional fees were earned. As PFLT cannot predict its future net investment income or capital gains, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the six months ended March 31, 2015. The pro forma combined company incentive fees have been calculated in a manner consistent with GAAP. See [Certain Relationships and Related Transactions of PFLT Investment Management Agreement](#) for more information.
- (7) Interest payments on borrowed funds represents an estimate of annualized interest expense based on actual interest and credit facility expenses incurred during the six months ended March 31, 2015. As of March 31, 2015, PFLT maintained a \$200 million Credit Facility under which \$117.3 million was outstanding bearing interest at LIBOR plus 200 basis points during the revolving period, which extends to May 2016, excluding the undrawn commitment fee of 0.50%. Although the pro forma combined information assumes no additional leverage, PFLT's use of leverage, as calculated under the asset coverage requirements, or the asset coverage ratio, of the 1940 Act, may generally range between 70% and 90% of its net assets, or 40% and 50% of its managed assets. PFLT cannot assure investors that its leverage will remain within the range. The amount of leverage that PFLT employs will depend on its assessment of the market and other factors at the time of any proposed borrowing. PFLT has estimated the annual interest expense on borrowed funds, and cautions you that its actual interest expense will depend on prevailing interest rates and its rate of borrowing, which may be substantially higher than the estimates provided in this table. See [Risk Factors Risks Relating to PFLT Risks Relating to PFLT's Business and Structure](#) PFLT currently uses borrowed funds to make investments and is exposed to the typical risks associated with leverage for more information.
- (8) This is based on the assumption that borrowings and interest costs after the Merger will remain the same as those costs prior to the Merger. PFLT expects over time that as a result of additional investment purchases, and in turn, additional borrowings on the credit facility after the Merger, the combined company's interest payments on borrowed funds may be more than the amounts estimated in the Unaudited Pro Forma Combined Statement of Operations and, accordingly, that estimated total expenses may be different than as reflected in the Unaudited Pro Forma Combined Statement of Operations for the six months ended March 31, 2015. However, the actual amount of leverage employed at any given time cannot be predicted. See [Risk Factors Risks Relating to PFLT Risks](#)

Relating to PFLT's Business and Structure. If PFLT incurs additional debt, it could increase the risk of investing in PFLT's shares. For more information.

- (9) Includes overhead expenses, in the case of PFLT, payments under the Administration Agreement based on its allocable portion of overhead and other expenses incurred by PFLT Administrator in performing its obligations under such administration agreement. In the case of MCG, such expenses are based on annualized employee salaries and benefits and employee stock awards, as applicable, and administrative expenses for the six months ended March 31, 2015. In the case of PFLT, such expenses are based on annualized Other expenses for the six months ended March 31, 2015. See Certain Relationships and Related Transactions of PFLT Administration Agreement for more information. For the combined company, Other expenses were based on the amount indicated in the Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended March 31, 2015. The holders of shares of PFLT and MCG Common Stock (and not the holders of their debt securities, if any) indirectly bear the cost associated with their annual expenses.
- (10) Total annual expenses as a percentage of consolidated net assets attributable to common stock, to the extent that a company borrows money to make investments, will be higher than the total annual expenses as a percentage would be for a company that is not leveraged. PFLT borrows money to leverage its net assets and increase its total assets. The SEC requires that the Total annual expenses percentage be calculated as a percentage of net assets rather than total assets, which include assets that have been funded with borrowed money.

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods prior to the Merger with respect to a hypothetical investment in MCG or PFLT or, following the Merger, the combined company's common stock. In calculating the following expense amounts, each of MCG, PFLT and



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the combined company has assumed that it would have no additional leverage and that its annual operating expenses would remain at the levels set forth in the table above. Transaction expenses related to the Merger are not included in the following example.

	1 year	3 years	5 years	10 years
<b>You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return in:</b>				
MCG	\$ 59	\$ 176	\$ 290	\$ 567
PFLT				
Assuming no return from net realized capital gains or net unrealized capital appreciation.	\$ 42	\$ 128	\$ 216	\$ 440
Assuming return from only realized capital gains and thus subject to the capital gains incentive fee.	\$ 52	\$ 156	\$ 260	\$ 517
Pro forma following the Merger				
Assuming no return from net realized capital gains or net unrealized capital appreciation.	\$ 42	\$ 127	\$ 214	\$ 436
Assuming return from only realized capital gains and thus subject to the capital gains incentive fee.	\$ 52	\$ 155	\$ 258	\$ 514

The table above is to assist you in understanding the various costs and expenses that an investor in MCG, PFLT, or following the Merger, the combined company's common stock will bear directly or indirectly. This example and the expenses in the table above should not be considered a representation of the companies' future expenses. Actual expenses may be greater or less than those assumed. While the example assumes, as required by the SEC, a 5% annual return, performance will vary and may result in a return greater or less than 5%. In the case of PFLT and the combined company following the Merger, assuming a 5% annual return, the incentive fee under the PFLT Investment Management Agreement would not be earned or payable and is not included in the example. If PFLT or the combined company following the Merger achieves sufficient returns on its investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, its expenses, and returns to its investors, would be higher. The example assumes that all dividends and distributions, if any, are reinvested at net asset value. Depending upon the market value of PFLT Common Stock, reinvestment of dividends and distributions under its dividend reinvestment plan may occur at a price per share that differs from, and which could be lower than, net asset value. See PFLT Dividend Reinvestment Plan for more information.

**This example and the expenses in the table above should not be considered a representation of MCG, PFLT or, following the Merger, the combined company's future expenses as actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.**

**Table of Contents****SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA OF PFLT**

The data below has been derived from PFLT's 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 are derived from PFLT's audited and unaudited Consolidated Financial Statements. These selected financial data should be read in conjunction with PFLT's Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations of PFLT for more information.

	Six Months Ended March 31,		Year Ended September 30,			For the period March 4, 2011 (commencement of operations) to September 30, 2011
	2015 (unaudited)	2014	2014	2013	2012	
<b>(Dollar amounts in thousands, except per share data)</b>						
<b>Consolidated Statements of Operations data:</b>						
Total investment income	\$ 15,460	\$ 14,467	\$ 30,357	\$ 18,867	\$ 12,099	\$ 2,947
Total expenses	5,535	7,515	13,721	8,344	5,789	2,626
Net investment income	9,925	6,952	16,636	10,523	6,310	320
Net realized and unrealized (loss) gain	(3,362)	6,342	3,878	1,461	5,651	(3,793)
Net increase (decrease) in net assets resulting from operations	6,563	13,294	20,514	11,985	11,961	(3,473)
<b>Per share data:</b>						
NAV (at period end)	14.30	14.46	14.40	14.10	13.98	13.44
Net investment income <sup>(1)</sup>	0.67	0.47	1.12	1.10	0.92	0.05
Net realized and unrealized (loss) gain <sup>(1)</sup>	(0.23)	0.42	0.26	0.15	0.83	(0.56)
Net increase (decrease) in net assets resulting from operations <sup>(1)</sup>	0.44	0.89	1.38	1.25	1.75	(0.51)
Distributions declared <sup>(1), (2)</sup>	0.54	0.53	1.08	1.05	0.91	0.25
<b>Consolidated Statements of Assets and Liabilities data:</b>						
Total assets	354,374	402,690	372,874	328,802	178,367	121,075
Total investment portfolio	335,525	389,208	348,428	317,804	171,834	110,724
Credit Facility payable <sup>(3)</sup>	117,593	173,200	146,949	99,600	75,123	24,650
Total NAV	212,971	215,353	214,528	210,066	95,744	92,072
<b>Other data:</b>						
Total return <sup>(4)</sup>	5.85%	4.27%	8.05%	17.17%	29.43%	(28.13)%
Number of portfolio companies <sup>(5)</sup>	71	87	72	83	61	38
Yield on debt portfolio <sup>(5)</sup>	8.4%	8.1%	8.2%	8.1%	8.6%	8.0%

- (1) Based on the weighted average shares outstanding for the respective periods.
- (2) Determined based on taxable income calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP.
- (3) At fair value.
- (4) Not annualized for a period of less than a year. Based on the change in market price per share during the periods and takes into account distributions, if any, reinvested in accordance with PFLT's dividend reinvestment plan.
- (5) Unaudited.

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	<b>2015</b>	
	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 7,983	\$ 7,477
Net investment income	\$ 4,456	\$ 5,468
Net realized and unrealized gain (loss)	\$ 1,668	\$ (5,030)
Net increase in net assets resulting from operations	\$ 6,124	\$ 438
Net increase in net assets resulting from operations per common share *	\$ 0.41	\$ 0.03
NAV per share at the end of the quarter	\$ 14.30	\$ 14.16
Market value per share at the end of the quarter	\$ 14.03	\$ 13.73

	<b>2014</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 8,221	\$ 7,669	\$ 7,623	\$ 6,844
Net investment income	\$ 5,320	\$ 4,363	\$ 3,725	\$ 3,228
Net realized and unrealized (loss) gain	\$ (3,043)	\$ 579	\$ 3,513	\$ 2,829
Net increase in net assets resulting from operations	\$ 2,278	\$ 4,942	\$ 7,237	\$ 6,057
Net increase in net assets resulting from operations per common share *	\$ 0.15	\$ 0.33	\$ 0.49	\$ 0.41
NAV per share at the end of the quarter	\$ 14.40	\$ 14.52	\$ 14.46	\$ 14.24
Market value per share at the end of the quarter	\$ 13.78	\$ 14.29	\$ 13.82	\$ 13.73

	<b>2013</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 6,095	\$ 4,670	\$ 4,140	\$ 3,963
Net investment income	\$ 3,581	\$ 3,217	\$ 1,666	\$ 2,059
Net realized and unrealized gain (loss)	\$ 1,866	\$ (1,650)	\$ 1,540	\$ (294)
Net increase in net assets resulting from operations	\$ 5,447	\$ 1,567	\$ 3,206	\$ 1,765
Net increase in net assets resulting from operations per common share *	\$ 0.39	\$ 0.15	\$ 0.45	\$ 0.26
NAV per share at the end of the quarter	\$ 14.10	\$ 13.98	\$ 14.10	\$ 13.99
Market value per share at the end of the quarter	\$ 13.78	\$ 14.14	\$ 13.96	\$ 12.70

\* Based on weighted average shares outstanding for the respective periods, as applicable.

**Table of Contents****SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA OF MCG**

The data below have been derived from MCG's 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 three months ended March 31, 2015 and March 31, 2014 are derived from MCG's Consolidated Financial Statements which have been reviewed by Ernst & Young LLP, an independent registered public accounting firm. The Consolidated Statement of Operations data, Per share data and Consolidated Statement of Assets and Liabilities data for the fiscal years ended December 31, 2014, 2013, 2012, 2011, and 2010 are derived from MCG's audited Consolidated Financial Statements. These selected financial data should be read in conjunction with MCG's Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations of MCG.

	Three Months Ended		Year Ended December 31,				
	March 31,						
	2015	2014	2014	2013	2012	2011	2010
<b>Dollar amounts in thousands, except per share data)</b>							
<b>Consolidated Statements of Operations</b>							
<b>Income data:</b>							
Total investment income	\$ 1,954	\$ 9,346	\$ 26,813	\$ 50,485	\$ 60,993	\$ 85,696	\$ 89,569
Total expenses	2,241	5,023	23,670	20,589	42,187	48,038	49,004
Net investment (loss) income	(287)	4,323	3,143	29,896	18,806	37,658	40,565
Net realized and unrealized gain (loss)	1,584	(23,255)	(24,179)	(28,594)	(13,299)	(129,873)	(54,819)
Net increase (decrease) in net assets							
Resulting from operations	1,299	(18,936)	(20,843)	1,176	4,998	(93,115)	(13,072)
<b>Per share data:</b>							
NAV <sup>(1)</sup>	4.75	4.37	4.69	4.74	5.18	5.65	7.54
Net investment (loss) income <sup>(2)</sup>	(0.01)	0.06	0.06	0.42	0.25	0.49	0.54
Net realized and unrealized gain (loss) <sup>(2)</sup>	0.04	(0.33)	(0.44)	(0.40)	(0.18)	(1.71)	(0.69)
Net increase (decrease) in net assets							
Resulting from operations <sup>(2)</sup>	0.03	(0.27)	(0.38)	0.02	0.07	(1.22)	(0.17)
Distributions declared		(0.13)	(0.25)	(0.50)	(0.58)	(0.66)	(0.37)
<b>Consolidated Statements of Assets and Liabilities data:</b>							
Total assets	180,918	448,560	183,797	513,992	630,776	890,538	1,145,277
Total investment portfolio	50,134	326,298	75,332	368,873	477,724	741,166	1,009,705
Credit Facility payable		150,000		175,172	248,053	430,219	546,882
Total NAV	176,138	296,046	178,901	333,954	371,728	434,952	578,016
<b>Other data:</b>							
Total return <sup>(3)</sup>	3.4%	-8.1%	-7.4%	6.5%	34.0%	33.7%	66.7%
Number of portfolio companies	5	33	7	34	44	60	71
Held on debt portfolio	11.7%	11.4%	12.2%	12.2%	11.3%	10.7%	11.7%

(1) Based on total number of shares outstanding.

- (2) Based on weighted-average number of shares outstanding for the respective periods.
- (3) Total return percentage is calculated by dividing the sum of the amount of dividends paid per share and the difference between the ending and beginning market price per share by the beginning market price per share.

**Table of Contents****SELECTED QUARTERLY DATA (Unaudited)****(dollar amounts in thousands, except per share data)**

	<b>2015 Q1</b>
Total investment income	\$ 1,954
Net investment income (loss)	\$ (287)
Net realized and unrealized gain	\$ 1,584
Net increase in net assets resulting from operations	\$ 1,299
Net increase in net assets resulting from operations per common share	\$ 0.03
NAV per share at the end of the quarter	\$ 4.75
Market value per share at the end of the quarter	\$ 3.96

	<b>2014</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 2,278	\$ 5,664	\$ 9,525	\$ 9,346
Net investment (loss) income	\$ (755)	\$ (976)	\$ 551	\$ 4,323
Net realized and unrealized gain (loss)	\$ 2,786	\$ 2,109	\$ (5,819)	\$ (23,255)
Net increase (decrease) in net assets resulting from operations	\$ 2,076	\$ 1,285	\$ (5,268)	\$ (18,936)
Net increase (decrease) in net assets resulting from operations per common share	\$ 0.05	\$ 0.03	\$ (0.09)	\$ (0.27)
NAV per share at the end of the quarter	\$ 4.69	\$ 4.48	\$ 4.42	\$ 4.37
Market value per share at the end of the quarter	\$ 3.83	\$ 3.52	\$ 3.92	\$ 3.79

	<b>2013</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 11,179	\$ 13,170	\$ 12,890	\$ 13,246
Net investment income	\$ 6,333	\$ 7,964	\$ 7,556	\$ 8,043
Net realized and unrealized gain (loss)	\$ (24,757)	\$ (4,616)	\$ 1,012	\$ (233)
Net increase (decrease) in net assets resulting from operations	\$ (18,439)	\$ 3,289	\$ 8,574	\$ 7,752
Net increase (decrease) in net assets resulting from operations per common share	\$ (0.26)	\$ 0.05	\$ 0.112	\$ 0.11
NAV per share at the end of the quarter	\$ 4.74	\$ 5.10	\$ 5.18	\$ 5.18
Market value per share at the end of the quarter	\$ 4.40	\$ 5.04	\$ 5.21	\$ 4.78

**Table of Contents****UNAUDITED SELECTED PRO FORMA CONSOLIDATED FINANCIAL DATA**

The following tables set forth unaudited pro forma condensed consolidated financial data for PFLT and MCG as a consolidated entity. The information as of September 30, 2014 is presented as if the Merger had been completed on October 1, 2013. The information as of March 31, 2015 is presented as if the Merger had been completed on October 1, 2014. The Merger follows the asset acquisition method of accounting as detailed in Accounting Standards Codification, or ASC, 805-50 *Business Combinations Related Issues*.

The Unaudited Pro Forma Condensed Consolidated Financial Data should be read together with the respective historical audited and Unaudited Consolidated Financial Statements and related notes to the financial statements of MCG and PFLT in this document. The Unaudited Pro Forma Condensed Consolidated Financial Data are presented for comparative purposes only and do not necessarily indicate what the future operating results or financial position of PFLT will be following completion of the Merger. The Unaudited Pro Forma Condensed Consolidated Financial Data does not include adjustments to reflect all net cost savings or other operational efficiencies that may be realized as a result of the Merger of MCG into PFLT.

**PennantPark Floating Rate Capital Ltd. and Subsidiaries****Pro Forma Condensed Consolidated Financial Data****Unaudited****(in thousands, except per share data)**

	<b>For the Six Months Ended March 31, 2015</b>	<b>For the Year Ended September 30, 2014</b>
Total investment income	\$ 19,692	66,071
Total expenses	8,961	35,255
Net investment income	10,731	30,816
Net realized and unrealized gains (losses) on investments and credit facility	1,008	(47,844)
Net increase (decrease) in net assets resulting from operations	\$ 11,739	(17,028)
	<b>As of March 31, 2015</b>	
Total assets	\$ 524,553	
Total debt	\$ 117,593	
Total net assets	\$ 378,370	





**Table of Contents****UNAUDITED PRO FORMA PER SHARE DATA**

The following selected Unaudited Pro Forma Per Share Data for the six months ended March 31, 2015 and for the year ended September 30, 2014 reflects the Merger and related transactions as if they had occurred on October 1, 2014 and 2013, respectively. The unaudited pro forma combined net asset value per common share outstanding reflects the Merger and related transactions as if they had occurred on March 31, 2015 and September 30, 2014.

Such Unaudited Pro Forma Combined Per Share Data are based on the historical financial statements of PFLT and MCG and on publicly available information and certain assumptions and adjustments as discussed in the section entitled Unaudited Pro Forma Condensed Consolidated Financial Statements. This Unaudited Pro Forma Combined Per Share Data are provided for illustrative purposes only and is not necessarily indicative of what the operating results, level of distributions or financial position of PFLT or MCG would have been had the Merger and related transactions been completed at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of any future operating results, level of distributions or financial position. The following should be read in connection with the section entitled Unaudited Pro Forma Condensed Consolidated Financial Statements and other information included in or incorporated by reference into this document.

(amounts in thousands except per share data)	As of and For the Six Months Ended March 31, 2015				As of and For the Year Ended September 30, 2014			
	PFLT	MCG	Pro forma Combined		PFLT	MCG	Pro forma Combined	
			PFLT	Per Equivalent MCG Share (3)			PFLT	Per Equivalent MCG Share (3)
Numerator for net increase (decrease) in net assets resulting from operations:	\$ 6,563	\$ 3,375	\$ 11,739		\$ 20,514	\$ (41,358)	\$ (17,028)	
Basic	\$ 0.44	\$ 0.08	\$ 0.44	\$ 0.14	\$ 1.38	\$ (0.66) <sup>(4)</sup>	\$ (0.64)	\$ (0.20)
Diluted	\$ 0.44	\$ 0.08	\$ 0.44	\$ 0.14	\$ 1.38	\$ (0.66) <sup>(4)</sup>	\$ (0.64)	\$ (0.20)
Cash distributions declared <sup>(1)</sup>	\$ 0.54	\$	\$ 0.54	\$ 0.17	\$ 1.08	\$ 0.37	\$ 1.08	\$ 0.34
Net asset value per share <sup>(2)</sup>	\$ 14.30	\$ 4.75	\$ 14.24	\$ 4.50	\$ 14.40	\$ 4.48		

- (1) The cash distributions declared per share represent the actual distributions declared per share for the period presented. The pro forma combined distributions declared are the distributions per share as declared by PFLT.
- (2) The pro forma combined net asset value per share is computed by dividing the pro forma combined net assets as of March 31, 2015 by the pro forma combined number of shares outstanding.
- (3) MCG equivalent pro forma per share amount is calculated by multiplying the combined pro forma share amounts by the common stock exchange ratio of .3162.
- (4) For the year ended September 30, 2014, MCG excluded 712 weighted-average shares of restricted stock from the calculation of diluted loss per share because the inclusion of these shares would have had an anti-dilutive impact on the calculation of loss per share.



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**RISK FACTORS**

*In addition to the other information included in this joint proxy statement and prospectus, stockholders should consider the matters described below in determining whether to approve the Merger and the Merger Agreement, in the case of MCG stockholders, and approve the issuance of PFLT Common Stock pursuant to the Merger, in the case of PFLT stockholders. The risks set out below are not the only risks PFLT, MCG and, following the Merger, the combined company. Additional risks and uncertainties not currently known to PFLT or MCG or that they currently deem to be immaterial also may materially adversely affect their or, following the Merger, the combined company's business, financial condition or operating results. If any of the following events occur, PFLT, MCG or, following the Merger, the combined company's business, financial condition or results of operations could be materially adversely affected.*

**RISKS RELATING TO THE MERGER**

***MCG stockholders and PFLT stockholders will experience a reduction in percentage ownership and voting power in the combined company as a result of the Merger.***

MCG stockholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power in respect of the combined company relative to their respective percentage ownership interests in MCG prior to the Merger. Consequently, MCG stockholders should expect to exercise less influence over the management and policies of the combined company following the Merger than they currently exercise over the management and policies of MCG. PFLT stockholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power in respect of the combined company relative to their respective ownership interests in PFLT prior to the Merger. Consequently, PFLT stockholders should expect to exercise less influence over the management and policies of the combined company following the Merger than they currently exercise over the management and policies of PFLT. If the Merger is consummated, based on the number of shares of PFLT Common Stock issued and outstanding at the closing of the Merger, it is expected PFLT stockholders will own approximately 56% of PFLT Common Stock and MCG stockholders will own approximately 44% of PFLT Common Stock.

***Under no circumstance will the aggregate cash consideration payable by the PFLT Investment Adviser exceed \$11.339 million.***

In connection with the Merger, each share of MCG Common Stock will be entitled to receive from the PFLT Investment Adviser \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock). Under no circumstance, however, will the aggregate cash consideration payable by the PFLT Investment Adviser exceed \$11.339 million. As a result, if more than 12,000,000 shares of PFLT Common Stock are issued in the Merger and the Merger Share Price (as defined in the Merger Agreement) is less than the PFLT Closing NAV (as defined in the Merger Agreement), the upward adjustment component of the cash consideration you are entitled to receive may be less than \$0.25 per share of PFLT Common Stock that you receive in the Merger. See Description of the Merger Agreement.

***PFLT may be unable to realize the benefits anticipated by the Merger, including estimated cost savings, or it may take longer than anticipated to achieve such benefits.***

The realization of certain benefits anticipated as a result of the Merger will depend in part on the integration of MCG's assets with PFLT's. There can be no assurance that MCG's assets can be profitable or integrated successfully into PFLT's operations in a timely fashion or at all. The dedication of management resources to such integration may

detract attention from the day-to-day business of PFLT and there can be no assurance that there will not be substantial costs associated with the transition process or there will not be other material adverse effects as a result of these integration efforts. Such effects could have a material adverse effect on the financial results of PFLT.

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PFLT also expects to achieve certain cost savings from the Merger when the two companies have fully integrated their operations. It is possible that the estimates of the potential cost savings could turn out to be incorrect. The cost savings estimates also assume PFLT's ability to combine the operations of PFLT and MCG in a manner that permits those cost savings to be fully realized. If the estimates turn out to be incorrect or if PFLT is not able to successfully combine the operations of the two companies, the anticipated cost savings may not be fully realized or realized at all or may take longer to realize than expected.

***The Merger may trigger certain change of control provisions and other restrictions in contracts of PFLT and the failure to obtain any required consents or waivers could adversely impact the combined company.***

Certain agreements of MCG and PFLT or their controlled affiliates will or may require the consent of one or more counterparties in connection with the Merger. The failure to obtain any such consent may permit such counterparties to terminate, or otherwise increase their rights or MCG's or PFLT's obligations under, any such agreement because the Merger may violate an anti-assignment, change of control or similar provision. If this occurs, PFLT may have to seek to replace that agreement with a new agreement or seek a waiver or amendment to such agreement. MCG and PFLT cannot assure you that PFLT will be able to replace, amend or obtain a waiver under any such agreement on comparable terms or at all.

If any such agreement is material, the failure to obtain consents, amendments or waivers under, or to replace on similar terms or at all, any of these agreements could adversely affect the financial performance or results of operations of the combined company following the Merger.

In addition, the consummation of the Merger may violate, conflict with, result in a breach of provisions of or the loss of any benefit under, constitute a default (or an event that, with or without notice or lapse of time or both, would constitute a default) under, or result in the termination, cancellation, acceleration or other change of any right or obligation (including any payment obligation) under certain agreements of PFLT. Any such violation, conflict, breach, loss, default or other effect could, either individually or in the aggregate, have a material adverse effect on the financial condition, results of operations, assets or business of the combined company following completion of the Merger.

***The opinions delivered to the boards of directors of MCG and PFLT by the parties' respective financial advisors will not reflect changes in circumstances between signing the Merger Agreement and completion of the Merger.***

Neither MCG nor PFLT has obtained an updated opinion as of the date of this joint proxy statement and prospectus from their respective financial advisors and neither anticipates obtaining an updated opinion prior to closing of the Merger. Changes in the operations and prospects of MCG or PFLT, general market and economic conditions and other factors that may be beyond the control of MCG or PFLT may significantly alter the value of MCG or the prices of shares of PFLT Common Stock or MCG Common Stock by the time the Merger is completed. The opinions do not speak as of the time the Merger will be completed or as of any date other than the date of such opinions. The recommendations of the boards of directors of MCG and PFLT that their respective stockholders vote FOR approval of the matters described in this joint proxy statement and prospectus are made as of the date of this joint proxy statement and prospectus. For a description of the opinion MCG's financial advisor, see The Merger Opinion of MCG's Financial Advisors. For a description of the opinion delivered by PFLT's financial advisor, see The Merger Opinion of PFLT's Financial Advisor.

***Termination of the Merger Agreement or the failure to close the Merger could negatively impact MCG and PFLT.***

If the Merger Agreement is terminated, there may be various consequences, including:

MCG's and PFLT's businesses may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the Merger;

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the market price of MCG Common Stock and PFLT Common Stock might decline to the extent that the market price prior to such termination reflects a market assumption that the Merger will be completed;

in the case of MCG, it may not be able to find a party willing to pay an equivalent or more attractive price than the price PFLT has agreed to pay in the Merger; and

the payment of any termination fee or reverse termination fee, if required under the circumstances, could adversely affect the financial condition and liquidity of MCG or PFLT.

The Merger may not be completed. If the Merger is not completed, PFLT and MCG will have incurred substantial expenses for which no ultimate benefit will have been received. Both companies have incurred out-of-pocket expenses in connection with the Merger for investment banking, legal and accounting fees and financial printing and other related charges, much of which will be incurred even if the Merger is not completed.

### ***Under certain circumstances, MCG and PFLT are obligated to pay each other a termination fee upon termination of the Merger Agreement.***

The Merger Agreement provides for the payment by MCG to PFLT of a termination fee of \$7 million if the Merger is terminated by MCG or PFLT under certain circumstances including termination to pursue a Superior Proposal to the Merger. In addition, the Merger Agreement provides for a payment by PFLT to MCG of a reverse termination fee of \$7 million if PFLT is unable to obtain the necessary votes of PFLT stockholders to approve the issuance of PFLT Common Stock. See Description of the Merger Agreement Termination of the Merger Agreement for a discussion of the circumstances that could result in the payment of a termination fee.

### ***The Merger Agreement limits MCG's ability to pursue alternatives to the Merger.***

The Merger Agreement contains provisions that limit MCG's ability to solicit, discuss or negotiate competing third-party proposals to acquire all or a significant part of MCG. These provisions, which are typical for transactions of this type, and include a \$7 million termination fee payable under certain circumstances, might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of MCG from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the Merger or might result in a potential competing acquiror proposing to pay a lower per share price to acquire MCG than it might otherwise have proposed to pay.

### ***The Merger is subject to closing conditions, including stockholder approvals, that, if not satisfied or waived, will result in the Merger not being completed, which may result in material adverse consequences to MCG's business and operations.***

The Merger is subject to closing conditions, including certain approvals of MCG's and PFLT's respective stockholders, that, if not satisfied, will prevent the Merger from being completed. The closing condition that MCG's stockholders approve the Merger and the Merger Agreement may not be waived under applicable law and must be satisfied for the Merger to be completed. MCG currently expects that all directors and executive officers of MCG will vote their shares of MCG Common Stock in favor of the proposals presented at the MCG special meeting. If MCG's stockholders do not approve the Merger and the Merger Agreement and the Merger is not completed, the resulting failure of the Merger could have a material adverse impact on MCG's business and operations. In addition to the required approvals of MCG's and PFLT's stockholders, the Merger is subject to a number of other conditions beyond MCG's control that may prevent, delay or otherwise materially adversely affect its completion. Neither MCG nor PFLT can predict



whether and when these other conditions will be satisfied.

***Certain persons related to MCG have interests in the Merger that differ from the interests of MCG stockholders.***

Certain persons related to MCG have financial interests in the Merger that are different from, or in addition to, the interests of MCG's stockholders. The members of the MCG board of directors were aware of and

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considered these interests, among other matters, in evaluating and negotiating the Merger Agreement and the Merger and in recommending to MCG stockholders that the Merger Agreement and Merger be approved. These interests are described in more detail in the section of this joint proxy statement and prospectus entitled *The Merger Interests of Certain Persons Related to MCG in the Merger*.

Based on the assumptions set forth in *The Merger Interests of Certain Persons Related to MCG in the Merger*, MCG's chief executive officer, principal financial officer, other most highly compensated current executive officer as of the end of the fiscal year ended December 31, 2014, who are referred to in this proxy statement as the MCG Named Executive Officers, may be entitled to receive aggregate payments of approximately \$3,144,461 in severance payments (including continuation of welfare benefits and tax gross up amounts) under MCG's benefit plans. In addition, two of the MCG Named Executive Officers may be entitled to receive \$1,592,544 in connection with restricted shares of MCG Common Stock that will vest upon the consummation of the Merger.

***PFLT may not immediately use the cash and cash equivalents it acquires in the Merger to make additional investments in existing portfolio companies or make investments in new portfolio companies.***

Pending the investment by PFLT in existing or new portfolio companies, PFLT will invest the cash acquired in the Merger primarily in cash equivalents, U.S. government securities and other high-quality investment grade investments that mature in one year or less from the date of investment. The income PFLT earns on such temporary investments will generally be significantly less than what it would expect to receive from its existing portfolio companies, and pending the investment by PFLT in similar investments, PFLT's income may be limited.

***MCG will be subject to operational uncertainties and contractual restrictions while the Merger is pending.***

Uncertainty about the effect of the Merger may have an adverse effect on MCG while the Merger is pending. These uncertainties may impair MCG's ability to retain and motivate key personnel until the Merger is consummated and could cause those that deal with MCG to seek to change their existing relationships with MCG. Retention of certain employees may be challenging during the pendency of the Merger, as certain employees may experience uncertainty about their future following completion of the Merger. In addition, the Merger Agreement restricts MCG from taking actions that it might otherwise consider to be in its best interests. These restrictions may prevent MCG from pursuing certain business opportunities that may arise prior to the completion of the Merger. Please see the section entitled *Description of the Merger Agreement Conduct of Business Pending Completion of the Merger* for a description of the restrictive covenants to which MCG is subject.

***The shares of PFLT Common Stock to be received by MCG stockholders as a result of the Merger will have different rights associated with them than shares of MCG Common Stock currently held by them.***

The rights associated with MCG Common Stock are different from the rights associated with PFLT Common Stock. See the section of this joint proxy statement and prospectus entitled *Comparison of Stockholder Rights*.

***The market price of shares of PFLT Common Stock after the Merger may be affected by factors different from those affecting MCG Common Stock or shares of PFLT Common Stock currently.***

The businesses of PFLT and MCG differ in some respects and, accordingly, the results of operations of the combined company and the market price of PFLT Common Stock after the Merger may be affected by factors different from those currently affecting the independent results of operations of each of PFLT or MCG.



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**RISKS RELATING TO PFLT**

***Risks Relating to PFLT's Business and Structure***

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

The U.S. capital markets have experienced periods of disruption characterized by the freezing of available 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 these periods 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 or materially worsen in the future. PFLT may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets, deterioration in credit and financing conditions or uncertainty regarding U.S. government spending and deficit levels could have a material adverse effect on PFLT's business, financial condition and results of operations.

***Volatility or a prolonged disruption in the credit markets could materially damage PFLT's business.***

PFLT is required to record its assets at fair value, as determined in good faith by its board of directors in accordance with PFLT's valuation policy. As a result, volatility in the capital markets may have a material adverse effect on PFLT's valuations and its NAV, even if PFLT holds investments to maturity. Volatility or dislocation in the capital markets may depress PFLT's stock price below its NAV per share and create a challenging environment in which to raise equity and debt capital. As a BDC, PFLT is generally not able to issue additional shares of PFLT Common Stock at a price less than PFLT's NAV without first obtaining approval for such issuance from PFLT's stockholders and independent directors. Additionally, PFLT's ability to incur indebtedness is limited by the asset coverage ratio for a BDC, as defined under the 1940 Act. Declining portfolio values negatively impact PFLT's ability to borrow additional funds under the Credit Facility because PFLT's NAV is reduced for purposes of the asset coverage ratio. If the fair value of PFLT's assets declines substantially, PFLT may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause PFLT to lose its status as a BDC and materially impair PFLT's business operations. A lengthy disruption in the credit markets could also materially decrease demand for PFLT's investments.

The significant disruption in the capital markets experienced in the past had, and may in the future have a negative effect on the valuations of PFLT's investments and on the potential for liquidity events involving PFLT's investments. The debt capital that may be available to PFLT in the future may be at a higher cost and have less favorable terms and conditions than those currently in effect. If PFLT's financing costs increase and PFLT has no increase in interest income, then its net investment income will decrease. A prolonged inability to raise capital may require PFLT to reduce the volume of investments it originates and could have a material adverse impact on its business, financial condition and results of operations. This may also increase the probability that other structural risks negatively impact PFLT. These situations may arise due to circumstances that PFLT may be unable to control, such as a lengthy disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or recession or an operational problem that affects third parties or PFLT, and could materially damage PFLT's business, financial condition and results of operations.

***Market developments may adversely affect PFLT's business and results of operations by reducing availability and/or triggering mandatory prepayment under Funding I's Credit Facility.***

In addition to the applicable asset coverage ratio that restricts PFLT's ability to borrow under the Credit Facility, the Credit Facility contains various covenants applicable to Funding I. For example, the income coverage covenant, or test, compares the amount of interest received on the portfolio loans held by Funding I to

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the amount of interest payable under the Credit Facility to affiliates of SunTrust Bank, or the Lenders, 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 Lenders and other parties. Failure to satisfy the various covenants under the Credit Facility could accelerate repayment under the Credit Facility or otherwise require changes in the priority of distributions under the payment waterfall, which could materially and adversely affect PFLT's 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 PFLT's status as a RIC;

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

A requirement that PFLT's outstanding borrowings under the Credit Facility not exceed a certain percentage of the values of its portfolio companies.

PFLT's continued compliance with these covenants depends on many factors, some of which are beyond its control. A material decrease in PFLT's NAV in connection with additional borrowings could result in an inability to comply with PFLT's obligation to restrict the level of indebtedness that PFLT is able to incur in relation to the value of its assets or to maintain a minimum level of stockholders' equity. This could have a material adverse effect on PFLT's operations, as it would reduce availability under the Credit Facility and could trigger mandatory prepayment obligations under the terms of the Credit Facility.

### ***PFLT operates in a highly competitive market for investment opportunities.***

A number of entities compete with PFLT to make the types of investments that it makes in middle-market companies. PFLT competes with public and private funds, including other BDCs, commercial and investment banks, commercial financing 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, also invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. Many of PFLT's potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than PFLT does. For example, PFLT believes some competitors have a lower cost of funds and access to funding sources that are not available to PFLT. In addition, some of PFLT's 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 PFLT. Furthermore, many of PFLT's competitors are not subject to the regulatory restrictions that the 1940 Act imposes on PFLT as a BDC. PFLT cannot assure you that the competitive pressures it faces will not have a material adverse effect on its business, financial condition and results of operations. Also, as a result of this competition, PFLT may not be able to take advantage of attractive investment opportunities from time to time, and PFLT can offer no assurance that it will be able to identify and make investments that are consistent with its investment objectives.

Participants in PFLT's industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. PFLT does not seek to compete primarily based on the interest rates it offers, and PFLT believes that some of its competitors may make loans with interest rates that are lower than the rates PFLT offers. PFLT may lose investment opportunities if it does not match

its competitors pricing, terms and structure. However, if PFLT matches its competitors pricing, terms and structure, it may experience decreased net interest income and increased risk of credit loss.

***PFLT's borrowers may default on their payments, which may have a materially negative effect on PFLT's financial performance.***

PFLT's primary business exposes it to credit risk, and the quality of its portfolio has a significant impact on its earnings. Credit risk is a component of PFLT's fair valuation of its portfolio companies. Negative credit events will lead to a decrease in the fair value of PFLT's portfolio companies.

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In addition, market conditions have affected consumer confidence levels, which may harm the business of PFLT's portfolio companies and result in adverse changes in payment patterns. Increased delinquencies and default rates would negatively impact PFLT's results of operations. Deterioration in the credit quality of PFLT's portfolio could have a material adverse effect on PFLT's business, financial condition and results of operations. If interest rates rise, some of PFLT's portfolio companies may not be able to pay the escalating interest on PFLT's loans and may default.

PFLT makes long-term loans and debt investments, which may involve a high degree of repayment risk. PFLT's investments with a deferred interest feature, such as original issue discount, or OID, income, could represent a higher credit risk than investments that must pay interest in full in cash on a regular basis. PFLT invests 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 impact the ability of PFLT's borrowers to repay their loans, which could significantly damage PFLT's 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 PFLT or other lenders could lead to defaults and, potentially, termination of its loans or foreclosure on the secured assets. This could trigger cross-defaults under other agreements and jeopardize PFLT's portfolio company's ability to meet its obligations under the loans or debt securities that PFLT holds. In addition, PFLT's portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with PFLT's securities. This means that payments on such senior-ranking securities may have to be made before PFLT receive any payments on its 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 material adverse effect on PFLT's financial condition and results of operations.

***Any unrealized losses PFLT experiences on its investment portfolio may be an indication of future realized losses, which could reduce PFLT's income available for distribution.***

As a BDC, PFLT is required to carry its investments at fair value, which is derived from a 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 PFLT's board of directors, then PFLT would carry its investments at fair value as determined in good faith by or under the direction of PFLT's board of directors. Decreases in the market values or fair values of PFLT's investments are recorded as unrealized depreciation or loss. 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 PFLT.

If the fair value of PFLT's portfolio companies reflects future realized losses, this would ultimately result in reductions of PFLT's income available for distribution in future periods and could materially harm PFLT's results of operations and cause a material decline in the value of PFLT Common Stock.

***PFLT may be the target of securities litigation.***

If PFLT's stock price fluctuates significantly, PFLT 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 PFLT's business and cause a material adverse effect on PFLT's business, financial condition and results of operations.

***PFLT is dependent upon the PFLT Investment Adviser's key personnel for PFLT's future success, and if the PFLT Investment Adviser is unable to hire and retain qualified personnel or if the PFLT Investment Adviser loses any member of its management team, PFLT's ability to achieve its investment objectives could be significantly harmed.***



PFLT depends on the diligence, skill and network of business contacts of the senior investment professionals of the PFLT Investment Adviser. PFLT also depends, to a significant extent, on the PFLT Investment Adviser's access to the investment information and deal flow generated by these investment

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professionals and any others that may be hired by the PFLT Investment Adviser. Subject to the overall supervision of PFLT's board of directors, the managers of the PFLT Investment Adviser evaluates, negotiates, structures, closes and monitors PFLT's investments. PFLT's future success depends on the continued service of management personnel of the PFLT Investment Adviser. The departure of managers of the PFLT Investment Adviser could have a material adverse effect on PFLT's ability to achieve its investment objectives. In addition, PFLT can offer no assurance that the PFLT Investment Adviser will remain PFLT's investment adviser. The PFLT Investment Adviser has the right, under the investment management agreement between PFLT and the PFLT Investment Adviser, or the PFLT Investment Management Agreement, to resign at any time upon 60 days' written notice, whether PFLT has found a replacement or not.

If the PFLT Investment Management Agreement is terminated, PFLT's costs under new agreements that it enters into may increase. In addition, PFLT will likely incur significant time and expense in locating alternative parties to provide the services it expects to receive under the PFLT Investment Management Agreement. Any new investment management agreement would also be subject to approval by PFLT's stockholders.

***PFLT is exposed to risks associated with changes in interest rates that may affect its cost of capital and net investment income.***

Since PFLT borrows money to make investments, its net investment income depends, in part, upon the difference between the rate at which PFLT borrows funds and the rate at which PFLT invests those funds. As a result, PFLT can offer no assurance that a significant change in market interest rates will not have a material adverse effect on its net investment income. In periods of rising interest rates, PFLT's cost of funds will increase and the interest rate on investments with an interest rate floor will not increase until interest rates exceed the applicable floor, which could reduce PFLT's net investment income. PFLT may use interest rate risk management techniques, such as total return swaps and interest rate swaps, in an effort to limit its exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act and applicable commodities laws. These activities may limit PFLT's 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 PFLT's business, financial condition and results of operations. Also, PFLT has limited experience in entering into hedging transactions, and it will initially have to purchase or develop such expertise. See Management's Discussion and Analysis of Financial Condition and Results of Operations of PFLT 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 PFLT's debt investments. Accordingly, an increase in interest rates would make it easier for PFLT to meet or exceed the incentive fee hurdle applicable under the PFLT Investment Management Agreement and may result in a substantial increase of the amount of incentive fees payable to the PFLT Investment Adviser with respect to Pre-Incentive Fee Net Investment Income.

General interest rate fluctuations may have a substantial negative impact on PFLT's investments, the value of PFLT Common Stock and PFLT's rate of return on invested capital. A reduction in interest rates may result in both lower interest rates on new investments and higher repayments on current investments with higher interest rates which may have an adverse impact on PFLT's net investment income. An increase in interest rates could decrease the value of any investments PFLT holds which earn fixed interest rates or are subject to interest rate floors and also could increase PFLT's interest expense, thereby decreasing its net income. Also, an increase in interest rates available to investors could make an investment in PFLT Common Stock less attractive if PFLT is not able to increase its dividend rate, which could reduce the value of PFLT Common Stock.

***PFLT's financial condition and results of operation depend on its ability to manage future growth effectively.***

PFLT's ability to achieve its investment objectives depends on its ability to grow, which depends, in turn, on the PFLT Investment Adviser's ability to identify, invest in and monitor companies that meet PFLT's

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investment criteria. Accomplishing this result on a cost-effective basis is largely a function of the PFLT Investment Adviser's structuring of the investment process, its ability to provide competent, attentive and efficient services to PFLT and its access to financing on acceptable terms. The management team of the PFLT Investment Adviser has substantial responsibilities under the PFLT Investment Management Agreement. In order to grow, the PFLT Investment Adviser will need to hire, train, supervise and manage new employees. However, PFLT can offer no assurance that any such employees will contribute effectively to the work of the PFLT Investment Adviser. PFLT cautions you that the principals of the PFLT Investment Adviser or PFLT 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 PFLT Investment Adviser. Such demands on their time may distract them or slow PFLT's rate of investment. Any failure to manage PFLT's future growth effectively could have a material adverse effect on PFLT's business, financial condition and results of operations.

***PFLT is highly dependent on information systems and systems failures could have a material adverse effect on its business, financial condition and results of operations.***

PFLT's business depends on the communications and information systems, including financial and accounting systems, of the PFLT Investment Adviser, PFLT Administrator and PFLT's sub-administrator. Any failure or interruption of such systems could cause delays or other problems in PFLT's activities. This, in turn, could have a material adverse effect on PFLT's business, financial condition and results of operations.

***PFLT may not replicate the historical performance of other investment companies and funds with which its 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 (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 PFLT Investment Adviser's ability to take advantage of attractive investment opportunities and to achieve PFLT's investment objectives. In addition, the investment philosophy and techniques used by the PFLT Investment Adviser may differ from those used by other investment companies and funds advised by the PFLT Investment Adviser. Accordingly, PFLT can offer no assurance that it will replicate the historical performance of other investment companies and funds with which its investment professionals have been affiliated, and PFLT cautions that its investment returns could be substantially lower than the returns achieved by such other companies.

***Any failure on PFLT's part to maintain its status as a BDC would reduce its operating flexibility.***

If PFLT does not remain a BDC, it might be regulated as a closed-end investment company under the 1940 Act, which would subject it to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease its operating flexibility, which could have a material adverse effect on PFLT's business, financial condition and results of operations.

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

PFLT has operated and continues to operate so as to maintain its election to be taxed as a RIC under Subchapter M of the Code. If PFLT meets source of income, quarterly asset diversification, and distribution requirements, it generally will not be subject to corporate-level income taxation on income it timely distributes, or is deemed to distribute, to its stockholders as distributions. PFLT would cease to qualify for such tax treatment if it were unable to comply with

these requirements. In addition, PFLT may have difficulty meeting the requirement to make distributions to PFLT's stockholders because in certain cases PFLT may recognize income

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before or without receiving cash representing such income. If PFLT fails to qualify as a RIC, it will have to pay corporate-level taxes on all of its income whether or not it distributes 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 its distributions to PFLT's stockholders. Even if PFLT qualifies as a RIC, it generally will be subject to a 4% nondeductible excise tax if it does not distribute an amount generally at least equal to the sum of (1) 98% of PFLT's net ordinary income (for the calendar year), (2) 98.2% of the sum of PFLT's capital gain net income (during each 12-month period ending on October 31), and (3) the sum of any net ordinary income plus capital gain net ordinary income for preceding years that were not distributed during such years and on which PFLT paid no U.S. federal income tax.

***PFLT may have difficulty paying its required distributions if it recognizes income before or without receiving cash representing such income.***

For federal income tax purposes, PFLT includes in income certain amounts that it has not yet received in cash, such as OID and payment-in-kind interest, or PIK interest, which represents interest added to the loan balance and due at the end of the loan term. OID, which could be significant relative to PFLT's overall investment assets, and increases in loan balances as a result of PIK interest will be included in income before PFLT receives any corresponding cash payments. PFLT also may be required to include in income certain other amounts that it will not receive in cash, such as amounts attributable to foreign currency transactions.

The part of the incentive fee payable by PFLT that relates to its 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 PFLT may recognize income before or without receiving cash representing such income. As a result, PFLT may have difficulty meeting the Annual Distribution Requirement (as defined below) and obtaining RIC tax benefits. Accordingly, PFLT may have to sell some of its investments at times or prices PFLT would not consider advantageous, or raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements, which could have a material adverse effect on PFLT's business, financial condition and results of operations. If PFLT is not able to obtain cash from other sources, it may fail to qualify for RIC tax benefits and thus be subject to corporate-level income tax.

***Because PFLT intends to distribute substantially all of its income to its stockholders to maintain its status as a RIC, PFLT will need to raise additional capital to finance its growth. If funds are not available to PFLT, PFLT may need to curtail new investments, and PFLT Common Stock value could decline.***

In order to satisfy the requirements applicable to a RIC, PFLT intends to distribute to its stockholders substantially all of its net ordinary income and net capital gains. However, PFLT may retain certain net long-term capital gains and pay applicable income taxes with respect thereto and elect to treat as deemed distributions to PFLT's stockholders. As a BDC, PFLT generally are required to meet an asset coverage ratio of total assets to total senior securities, which includes all of PFLT's borrowings, and any preferred stock PFLT may issue in the future. This requirement limits the amount PFLT may borrow. If the value of PFLT's assets declines, PFLT may be unable to satisfy this test. If that happens, PFLT may be required to sell a portion of its investments or sell additional PFLT Common Stock and, depending on the nature of PFLT's leverage, to repay a portion of its 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 PFLT's current stockholders in PFLT.

PFLT is partially dependent on Funding I for cash distributions to enable PFLT to meet the RIC distribution requirements. Funding I may be limited by its covenants from making certain distributions to PFLT that may be necessary to maintain PFLT's status as a RIC. PFLT may have to request a waiver of these covenant's restrictions for Funding I to make certain distributions to maintain PFLT's RIC status. PFLT 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 a corporate-level income tax on PFLT.

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**Table of Contents*****Regulations governing PFLT's operation as a BDC will affect PFLT's ability to, and the way in which PFLT, raises additional capital.***

PFLT's business requires a substantial amount of capital. PFLT may acquire additional capital from the issuance of additional senior securities or other indebtedness, the issuance of additional shares of PFLT Common Stock, the issuance of warrants or subscription rights to purchase certain of PFLT's securities, or from securitization transactions. However, PFLT may not be able to raise additional capital in the future on favorable terms or at all. PFLT may issue debt securities or preferred securities, which PFLT refers to collectively as senior securities, and PFLT may borrow money from banks, or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits PFLT to issue senior securities or incur indebtedness only in amounts permissible under the asset coverage definition under the 1940 Act. PFLT's ability to pay dividends or issue additional senior securities would be restricted if PFLT's asset coverage ratio was not met. If the value of PFLT's assets declines, PFLT may be unable to satisfy this test. If that happens, PFLT may be required to liquidate a portion of its investments and repay a portion of its indebtedness at a time when such sales may be disadvantageous, which could materially damage PFLT's business.

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

***Additional PFLT Common Stock.*** PFLT's board of directors may decide to issue PFLT Common Stock to finance PFLT's operations rather than issuing debt or other senior securities. As a BDC, PFLT is generally not able to issue PFLT Common Stock at a price below NAV per share without first obtaining certain approvals from PFLT's stockholders and PFLT's board of directors. Also, subject to the requirements of the 1940 Act, PFLT may issue rights to acquire PFLT Common Stock at a price below the current NAV per share of the PFLT Common Stock if PFLT's board of directors determines that such sale is in PFLT's best interests and the best interests of PFLT stockholders. In any such case, the price at which PFLT's securities are to be issued and sold may not be less than a price, that in the determination of PFLT's board of directors, closely approximates the market value of such securities. However, when required to be undertaken, the procedures used by the board of directors to determine the NAV per share of PFLT Common Stock within 48 hours of each offering of PFLT Common Stock may differ materially from and will necessarily be more abbreviated than the procedures used by the board of directors to determine the NAV per share of PFLT Common Stock at the end of each quarter. Such procedures may yield a NAV that is less precise than the NAV determined at the end of each quarter. PFLT will not offer transferable subscription rights to PFLT's stockholders at a price equivalent to less than the then current NAV per share of PFLT Common Stock, excluding underwriting commissions, unless PFLT first files a post-effective amendment that is declared effective by the SEC with respect to such issuance and the PFLT Common Stock to be purchased in connection with such rights represents no more than one-third of PFLT's outstanding stock at the time such rights are issued. In addition, for PFLT to file a post-effective amendment to a registration statement on Form N-2, PFLT must then be qualified to register PFLT's securities under the requirements of Form S-3. PFLT may actually issue shares above or below a future NAV. If PFLT raises additional funds by issuing



more PFLT Common Stock or warrants or senior securities convertible into, or exchangeable for, PFLT Common Stock, the percentage ownership of PFLT stockholders at that time would decrease, and PFLT stockholders would experience voting dilution.

**Securitization.** In addition to issuing securities to raise capital as described above, PFLT anticipates that in the future, as market conditions permit, PFLT may securitize PFLT's loans to generate cash for

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funding new investments. To securitize loans, PFLT 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 PFLT would expect to be willing to accept a substantially lower interest rate than the loans earn. Even though PFLT expects the pool of loans that PFLT contributes 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 require PFLT to consolidate the securitization vehicle's financial statements with PFLT's financial statements, any debt issued by it would be generally treated as if it were issued by PFLT for purposes of the asset coverage ratio applicable to PFLT. In such case, PFLT would expect to retain all or a portion of the equity and/or subordinated notes in the securitization vehicle. PFLT's 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, PFLT would earn an incremental amount of income on its retained equity but it would be exposed, up to the amount of equity it retained, to that proportion of any losses it would have experienced if it had continued to hold the loans in its portfolio. PFLT may hold subordinated debentures in any such securitization vehicle and, if so, PFLT would not consider such securities to be senior securities. An inability to successfully securitize PFLT's loan portfolio could limit PFLT's ability to grow its business and fully execute its business strategy and adversely affect PFLT's earnings, if any. Moreover, the successful securitization of a portion of PFLT's loan portfolio might expose PFLT to losses as the residual loans in which PFLT does not sell interests will tend to be those that are riskier and less liquid.

***PFLT currently uses borrowed funds to make investments and is exposed to the typical risks associated with leverage.***

Because PFLT borrows funds through Funding I to make investments, it is exposed to increased risk of loss due to PFLT's use of debt to make investments. A decrease in the value of PFLT's investments will have a greater negative impact on the NAV attributable to PFLT Common Stock than it would if PFLT did not use debt. PFLT's ability to pay distributions is restricted when its asset coverage ratio is not met and any cash that it uses to service its indebtedness is not available for distribution to PFLT's common stockholders.

PFLT's 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 its operating flexibility. PFLT bears, and indirectly PFLT's stockholders bear, the cost of issuing and servicing debt. Any convertible or exchangeable securities that PFLT issues in the future may have rights, preferences and privileges more favorable than those of PFLT Common Stock.

***If PFLT incurs additional debt, it could increase the risk of investing in its shares.***

PFLT has indebtedness outstanding pursuant to the Credit Facility and expects in the future to borrow additional amounts under the Credit Facility or other debt securities, subject to market availability, and, may increase the size of the Credit Facility. PFLT cannot assure you that its leverage will remain at current levels. The amount of leverage that PFLT employs will depend upon its assessment of the market and other factors at the time of any proposed borrowing. Lenders have fixed dollar claims on PFLT's assets that are superior to the claims of PFLT common stockholders or preferred stockholders, if any, and PFLT has granted a security interest in Funding I's assets in connection with Credit Facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before PFLT common stockholders. Any future debt issuance will increase PFLT's leverage and may be subordinate to the Credit Facility. In addition, borrowings or debt issuances, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in PFLT's securities. Leverage is generally considered a speculative investment



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technique. If the value of PFLT's assets decreases, then leveraging would cause the NAV attributable to PFLT Common Stock to decline more than it otherwise would have had PFLT not utilized leverage. Similarly, any decrease in PFLT's revenue would cause its net income to decline more than it would have had PFLT not borrowed funds and could negatively affect PFLT's ability to make distributions on its common or preferred stock. PFLT's ability to service any debt that it incurs depends largely on its financial performance and is subject to prevailing economic conditions and competitive pressures.

As of March 31, 2015, PFLT had outstanding borrowings of \$117.3 million under the Credit Facility with a current interest rate of 2.18% exclusive of the fees on the undrawn commitment of 0.50%. Accordingly, to cover the annual interest on PFLT's borrowings outstanding at March 31, 2015, at the then current rate, PFLT would have to receive an annual yield of at least 0.77%. This example is for illustrative purposes only, and actual interest rates on the Credit Facility or any future borrowings are likely to fluctuate. The costs associated with PFLT's borrowings, including any increase in the management fee or incentive fee payable to the PFLT Investment Adviser, are and will be borne by PFLT common stockholders.

The following table is designed to illustrate the effect on return to a holder of PFLT Common Stock of the leverage created by PFLT's use of borrowing at March 31, 2015 of 33% of total assets (including such borrowed funds), at a current interest rate at the time of 2.18%, and assumes hypothetical annual returns on PFLT's portfolio of minus 10 to plus 10 percent. The table also assumes that PFLT will maintain a constant level and weighted average rate of leverage. The amount of leverage and cost of borrowing that PFLT uses 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) <sup>(1)</sup>	(10.0)%	(5.0)%	%	5.0%	10.0%
Corresponding return to common stockholders <sup>(2)</sup>	(17.8)	(7.5)	(1.2)	7.1	15.4

- (1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, PFLT's 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 PFLT's assets at the beginning of the period to obtain an assumed return to PFLT. 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 PFLT's net assets as of the beginning of the period to determine the corresponding return to common stockholders.

***PFLT may in the future determine to fund a portion of its investments with debt securities, which would magnify the potential for loss and the risks of investing in PFLT.***

As a result of any issuance of debt securities, PFLT would be exposed to typical risks associated with leverage, including an increased risk of loss and an increase in expenses, which are ultimately borne by PFLT stockholders. Payment of interest on such debt securities must take preference over any other distributions or other payments to PFLT stockholders. If PFLT issues debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting PFLT's operating flexibility. In addition, such securities may be rated by rating agencies, and in obtaining a rating for such securities, PFLT may be required to abide by operating and investment guidelines that could further restrict PFLT's operating flexibility. Furthermore, any cash that PFLT uses to service its indebtedness would not be available for the payment of distributions to PFLT common stockholders.

***PFLT's credit ratings may not reflect all risks of an investment in its debt securities.***

PFLT's credit ratings, if any, are an assessment of PFLT's ability to pay its obligations. Consequently, real or anticipated changes in PFLT's credit ratings will generally affect the market value of any publicly issued debt

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securities. PFLT's credit ratings, generally may not reflect the potential impact of risks related to market conditions or other factors discussed above on the market value of, or trading market for, any publicly issued debt securities.

***Market conditions may make it difficult to extend the maturity of or refinance PFLT's existing indebtedness and any failure to do so would have a material adverse effect on PFLT's business.***

The Credit Facility expires in May 2018. PFLT utilizes the Credit Facility to make investments in its portfolio companies. The life of PFLT's investments typically exceeds the duration of PFLT's indebtedness under the Credit Facility. This means that PFLT will have to extend the maturity of the Credit Facility or refinance PFLT's indebtedness under the Credit Facility in order to avoid selling investments at a time when such sales may be at prices that are disadvantageous to it, which could materially damage PFLT's business. In addition, future market conditions may affect PFLT's ability to renew or refinance the Credit Facility on terms as favorable as those in PFLT's existing Credit Facility. If PFLT fails to extend or refinance the indebtedness outstanding under the Credit Facility by the time it becomes due and payable, the administrative agent of the Credit Facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the Credit Facility, subject to certain restrictions, any of which could have a material adverse effect on PFLT's business, financial condition and results of operations. The illiquidity of PFLT's investments may make it difficult for it to sell such investments. If PFLT is required to sell its investments on short-term notice, it may not receive the value that it has recorded for such investments, and this could materially affect PFLT's results of operations.

***PFLT may in the future determine to fund a portion of its investments with preferred stock, which is another form of leverage and would magnify the potential for loss and the risks of investing in PFLT.***

Preferred stock, which is another form of leverage, has the same risks to PFLT common stockholders as borrowings because the dividends on any preferred stock PFLT issues must be cumulative. If PFLT issues preferred securities they would rank senior to PFLT Common Stock in its capital structure. Payment of dividends on, and repayment of the liquidation preference of, such preferred stock would typically take preference over any dividends or other payments to PFLT common stockholders. Also, preferred stockholders are not, typically, subject to any of PFLT's expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference. Furthermore, preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of PFLT common stockholders. Also, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for PFLT common stockholders or otherwise be in your best interest.

***PFLT's interests in Funding I are subordinated.***

PFLT owns 100% of the equity interests in Funding I. PFLT consolidates Funding I in PFLT's Consolidated Financial Statements and treats the indebtedness of Funding I as PFLT's leverage. PFLT's interests in Funding I (other than the management fees that the PFLT Investment Adviser has irrevocably directed to be paid to PFLT) are subordinate in priority of payment to every other obligation of Funding I and are subject to certain payment restrictions set forth in the Credit Facility documents. PFLT may receive cash distributions on its equity interests in Funding I only after it has made all (1) required cash interest and, if applicable, principal payments to the Lenders, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. PFLT cannot assure you that there will be sufficient funds available to make any distributions to PFLT or that such distributions will meet its expectations.

PFLT's equity interests in Funding I are subordinate to all of the secured and unsecured creditors, known or unknown, of Funding I, including the Lenders. Consequently, to the extent that the value of Funding I's portfolio of loan

investments has been reduced as a result of conditions in the credit markets, defaulted loans, capital losses exceeding gains on the underlying assets, prepayments or changes in interest rates, the return on PFLT's investment in Funding I could be reduced. Accordingly, PFLT's investment in Funding I is subject to a complete risk of loss.

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**Table of Contents*****PFLT may not receive cash on its equity interests from Funding I.***

Except for management fees that the PFLT Investment Adviser has irrevocably directed to be paid to PFLT, PFLT receives cash from Funding I only to the extent that PFLT receives distributions on its equity interests in Funding I. Funding I may make equity distributions on such interests only to the extent permitted by the payment priority provisions of the Credit Facility. The Credit Facility generally provides that payments on such interests may not be made on any payment date unless all amounts owing to the Lenders and other secured parties are paid in full. In the event that PFLT fails to receive cash from Funding I, PFLT could be unable to make distributions to PFLT's stockholders in amounts sufficient to qualify as a RIC. PFLT also could be forced to sell investments in portfolio companies at less than their fair value in order to continue making such distributions.

***If PFLT issues preferred stock, debt securities or convertible debt securities, the NAV and market value of PFLT Common Stock may become more volatile.***

PFLT cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of PFLT Common Stock. The issuance of preferred stock, debt securities and/or convertible debt would likely cause the NAV and market value of PFLT Common Stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on PFLT's investment portfolio, the benefit of leverage to the holders of PFLT Common Stock would be reduced or entirely eliminated. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on PFLT's portfolio, the use of leverage would result in a lower rate of return to the holders of PFLT Common Stock than if PFLT had not issued the preferred stock or debt securities. Any decline in the NAV of PFLT's investment would be borne entirely by the holders of PFLT Common Stock. Therefore, if the market value of PFLT's portfolio were to decline, the leverage would result in a greater decrease in NAV to the holders of PFLT Common Stock than if PFLT were not leveraged through the issuance of preferred stock, debt securities or convertible debt. This decline in NAV would also tend to cause a greater decline in the market price for PFLT Common Stock.

There is also a risk that, in the event of a sharp decline in the value of PFLT's net assets, PFLT would be in danger of failing to maintain required asset coverage ratios or other covenants which may be required by the preferred stock, debt securities and/or convertible debt or risk a downgrade in the ratings of the preferred stock, debt securities and/or convertible debt or PFLT's current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, PFLT might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, PFLT would pay (and the holders of PFLT Common Stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities, convertible debt or any combination of these securities may have different interests than holders of PFLT Common Stock and may at times have disproportionate influence over PFLT's affairs.

***Holders of any preferred stock that PFLT may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.***

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including conversion to open-end status and, accordingly, preferred stockholders could veto any such changes in addition to any ability of common and preferred stockholders, voting together as a single class, to veto such matters. Restrictions imposed on the declarations and payment of



distributions to the holders of PFLT Common Stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair PFLT's ability to maintain its qualification as a RIC for U.S. federal income tax purposes, which could have a material adverse effect on PFLT's business, financial condition and results of operations.

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***PFLT may in the future issue securities for which there is no public market and for which it expects no public market to develop.***

In order to raise additional capital, PFLT may issue debt or other securities for which no public market exists, and for which no public market is expected to develop. If PFLT issues shares of PFLT Common Stock as a component of a unit security, PFLT would expect the PFLT Common Stock to separate from the other securities in such unit after a period of time or upon occurrence of an event and to trade publicly on NASDAQ, which may cause volatility in PFLT's publicly traded common stock. To the extent PFLT issues securities for which no public market exists and for which no public market develops, a purchaser of such securities may not be able to liquidate the investment without considerable delay, if at all. If a market should develop for PFLT's debt and other securities, the price may be highly volatile, and PFLT's debt and other securities may lose value.

***There are significant potential conflicts of interest which could impact PFLT's investment returns.***

The professionals of the PFLT Investment Adviser and PFLT Administrator may serve as officers, directors or principals of entities that operate in the same or a related line of business as PFLT does or of investment funds managed by affiliates of PFLT that currently exist or may be formed in the future. The PFLT Investment Adviser and PFLT Administrator may be engaged by such funds at any time and without the prior approval of PFLT's stockholders or PFLT's board of directors. PFLT's board of directors monitors any potential conflict that may arise upon such a development. Accordingly, if this occurs, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of PFLT or PFLT's stockholders. Currently, the executive officers and directors, as well as the current senior investment professionals of the PFLT Investment Adviser, may serve as officers and directors of PFLT's affiliated funds. In addition, PFLT notes that any affiliated investment vehicles currently formed or formed in the future and managed by the PFLT Investment Adviser or its affiliates may have overlapping investment objectives with PFLT's own and, accordingly, may invest in asset classes similar to those targeted by PFLT. As a result, the PFLT Investment Adviser may face conflicts in allocating investment opportunities between PFLT and such other entities. Although the PFLT Investment Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, PFLT may not be given the opportunity to participate in investments made by investment funds managed by the PFLT Investment Adviser or an investment manager affiliated with the PFLT Investment Adviser. In any such case, when the PFLT Investment Adviser identifies an investment, it is forced to choose which investment fund should make the investment. PFLT may co-invest on a concurrent basis with any other affiliates that the PFLT Investment Adviser currently has or forms in the future, subject to compliance with applicable regulations and regulatory guidance and PFLT's allocation procedures.

In the ordinary course of PFLT's investing activities, PFLT pays investment advisory and incentive fees to the PFLT Investment Adviser, and reimburses the PFLT Investment Adviser for certain expenses it incurs. As a result, investors in PFLT Common Stock invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Accordingly, there may be times when the management team of the PFLT Investment Adviser has interests that differ from those of PFLT's stockholders, giving rise to a conflict.

PFLT has entered into a license agreement with the PFLT Investment Adviser, pursuant to which the PFLT Investment Adviser has agreed to grant PFLT a royalty-free non-exclusive license to use the name PennantPark. The license agreement will expire (i) upon expiration or termination of the PFLT Investment Management Agreement, (ii) if the PFLT Investment Adviser ceases to serve as PFLT's investment adviser, (iii) by either party upon 60 days written notice or (iv) by the PFLT Investment Adviser at any time in the event PFLT assigns or attempts to assign or sublicense the license agreement or any of PFLT's rights or duties thereunder without the prior written consent of the PFLT Investment Adviser. Other than with respect to this limited license, PFLT has no legal right to the PennantPark

name.

In addition, PFLT pays PFLT Administrator, an affiliate of the PFLT Investment Adviser, PFLT's allocable portion of overhead and other expenses incurred by PFLT Administrator in performing its obligations under the

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administration agreement between PFLT and PFLT Administrator, or the Administration Agreement, including rent and PFLT's allocable portion of the cost of PFLT's Chief Financial Officer and Chief Compliance Officer and their respective staffs. These arrangements may create conflicts of interest that PFLT's board of directors must monitor.

### ***The ability to sell investments held by Funding I is limited.***

The Credit Facility places restrictions on the collateral manager's ability to sell investments. As a result, there may be times or circumstances during which the collateral manager is unable to sell investments or take other actions that might be in PFLT's best interests.

### ***The trading market or market value of any publicly issued debt or convertible debt securities may be volatile.***

If PFLT publicly issues debt or convertible debt securities, they initially will not have an established trading market. PFLT cannot assure investors that a trading market for its publicly issued debt or convertible debt securities would develop or be maintained if developed. In addition to PFLT's creditworthiness, many factors may have a material adverse effect on the trading market for, and market value of, PFLT's publicly issued debt or convertible debt securities.

These factors include the following:

the time remaining to the maturity of these debt securities;

the outstanding principal amount of debt securities with terms identical to these debt securities;

the supply of debt securities trading in the secondary market, if any;

the redemption, repayment or convertible features, if any, of these debt securities;

the level, direction and volatility of market interest rates; and

market rates of interest higher or lower than rates borne by the debt securities.

There also may be a limited number of buyers for PFLT's debt securities. This too may have a material adverse effect on the market value of the debt securities or the trading market for the debt securities. PFLT's debt securities may include convertible features that cause them to more closely bear risks associated with an investment in PFLT Common Stock.

### ***Terms relating to redemption may have a material adverse effect on the return on any debt securities.***

If PFLT issues debt securities that are redeemable at its option, it may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if the debt securities are subject to mandatory redemption, PFLT may be required to redeem the debt securities at times when

prevailing interest rates are lower than the interest rates paid on the debt securities. In this circumstance, a holder of PFLT's debt securities may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the debt securities being redeemed.

***If PFLT issues subscription rights or warrants for PFLT Common Stock, your interest in PFLT may be diluted as a result of such rights or warrants offering.***

Stockholders who do not fully exercise rights or warrants issued to them in an offering of subscription rights or warrants to purchase PFLT Common Stock should expect that they will, at the completion of an offering, own a smaller proportional interest in PFLT than would otherwise be the case if they fully exercised their rights or warrants. PFLT cannot state precisely the amount of any such dilution in share ownership because it does not know what proportion of the PFLT Common Stock would be purchased as a result of any such offering.

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In addition, if the subscription price or warrant exercise price is less than PFLT's NAV per share of PFLT Common Stock at the time of an offering, then PFLT's stockholders would experience an immediate dilution of the aggregate NAV of their shares as a result of the offering. The amount of any such decrease in NAV is not predictable because it is not known at this time what the subscription price, warrant exercise price or NAV per share will be on the expiration date of such rights offering or what proportion of PFLT Common Stock will be purchased as a result of any such offering.

***PFLT may experience fluctuations in its quarterly results.***

PFLT could experience fluctuations in its quarterly operating results due to a number of factors, including the interest rate payable on the debt securities it acquires, the default rate on such securities, the level of PFLT's expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which PFLT encounters competition in its markets and general economic conditions. However, as a result of PFLT's irrevocable election to apply the fair value option to the Credit Facility future decreases of fair value of PFLT's debt will have a corresponding increase to PFLT's NAV. Further increases of fair value of PFLT's debt will have the opposite effect. Any future indebtedness that PFLT elects the fair value option for may have similar effects on its NAV as the Credit Facility. This will tend to mitigate volatility in PFLT's earnings and NAV. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***The impact of recent financial reform legislation on PFLT is uncertain.***

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, became effective in 2010. Although many provisions of the Dodd-Frank Act have delayed effectiveness or will not become effective until the relevant federal agencies issue new rules to implement the Dodd-Frank Act, the Dodd-Frank Act may nevertheless have a material adverse impact on the financial services industry as a whole and on PFLT's business, financial condition and results of operations. Accordingly, PFLT is continuing to evaluate the effect the Dodd-Frank Act or implementing its regulations will have on its business, financial condition and results of operations.

***Changes in laws or regulations governing PFLT's operations may adversely affect PFLT's business.***

PFLT and its portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations could have a material adverse effect on PFLT's business. See Regulation for more information.

***PFLT's board of directors may change PFLT's investment objectives, operating policies and strategies without prior notice or stockholder approval.***

PFLT's board of directors has the authority to modify or waive certain of PFLT's operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act PFLT may not change the nature of its business so as to cease to be, or withdraw its election as, a BDC. PFLT cannot predict the effect any changes to its current operating policies and strategies would have on its business, operating results and value of PFLT Common Stock. Nevertheless, the effects may adversely affect PFLT's business and impact PFLT's ability to make distributions.



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***PFLT invests in illiquid assets, and its valuation procedures with respect to such assets may result in recording values that are materially different than the values PFLT ultimately receives upon disposition of such assets.***

All of PFLT's investments are recorded using broker or dealer quotes, or at fair value as determined in good faith by PFLT's board of directors. PFLT expects that primarily most, if not all, of its investments (other than cash and cash equivalents) and the fair value of the Credit Facility will be classified as Level 3 under the Financial Accounting Standards Board, or FASB, ASC Topic 820, Fair Value Measurements and Disclosures, or ASC 820. This means that the portfolio valuations will be based on unobservable inputs and PFLT's own assumptions about how market participants would price the asset or liability. PFLT expects that inputs into the determination of fair value of its portfolio investments and Credit Facility borrowings will require significant management judgment or estimation. Even if observable market data are 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 such a disclaimer materially reduces the reliability of such information.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments PFLT makes. In determining fair value in good faith, PFLT generally obtains financial and other information from portfolio companies, which may represent unaudited, projected or pro forma financial information. Unlike banks, PFLT is not permitted to provide a general reserve for anticipated loan losses; PFLT is instead required by the 1940 Act to specifically fair value each individual investment on a quarterly basis. PFLT records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value. Likewise, PFLT records unrealized depreciation if it believes that the underlying portfolio company has depreciated in value. As a result, there will be uncertainty as to the value of PFLT's portfolio investments.

PFLT adjusts quarterly the valuation of its portfolio to reflect its board of directors' determination of the fair value of each investment in its portfolio. Any changes in fair value are recorded on its Consolidated Statements of Operations as net change in unrealized appreciation or depreciation.

At March 31, 2015, all of PFLT's investments were recorded at fair value as approved in good faith by its board of directors. PFLT's board of directors uses the services of one or more nationally recognized independent valuation firms to aid it in determining the fair value of its investments. The factors that may be considered in fair value pricing of PFLT's investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Because valuations may fluctuate over short periods of time and may be based on estimates, PFLT's determinations of fair value may differ materially from the value received in an actual transaction. Additionally, valuations of private securities and private companies are inherently uncertain. PFLT's NAV could be adversely affected if its determinations regarding the fair value of its investments were materially higher or lower than the values that PFLT ultimately realizes upon the disposal of such investments.

***The lack of liquidity in PFLT's investments may adversely affect its business.***

PFLT may acquire its investments directly from the issuer in privately negotiated transactions. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. PFLT typically exits its investments when the portfolio company has a liquidity event such as a sale, refinancing, or initial public offering of the company, but PFLT is not required to do so.



The illiquidity of PFLT's investments may make it difficult or impossible for it to sell such investments if the need arises, particularly at times when the market for illiquid securities is substantially diminished. In

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addition, if PFLT is required to liquidate all or a portion of its portfolio quickly, it may realize significantly less than the value at which it had previously recorded its investments, which could have a material adverse effect on its business, financial condition and results of operations. In addition, PFLT may face other restrictions on its ability to liquidate an investment in a portfolio company to the extent that it has material non-public information regarding such portfolio company.

Investments purchased by PFLT that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the investments, market events, economic conditions or investor perceptions. Domestic and foreign markets are complex and interrelated, so that events in one sector of the world markets or economy, or in one geographical region, can reverberate and have materially negative consequences for other market, economic or regional sectors in a manner that may not be foreseen and which may materially harm PFLT's business.

### ***A general disruption in the credit markets could materially damage PFLT's business.***

PFLT is susceptible to the risk of significant loss if it is forced to discount the value of its investments in order to provide liquidity to meet its liability maturities. Funding I's borrowings under the Credit Facility are collateralized by the assets in its investment portfolio. A general disruption in the credit markets could result in a diminished appetite for PFLT's securities. In addition, with respect to over-the-counter traded securities, the continued viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

If the fair value of PFLT's assets declines substantially, it may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause PFLT to lose its status as a BDC and materially impair its business operations. PFLT's liquidity could be impaired further by an inability to access the capital markets or to draw down Funding I's Credit Facility. These situations may arise due to circumstances that PFLT may be unable to control, such as a general 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 PFLT, and could materially damage PFLT's business.

### ***PFLT relies in part on its over-the-counter securities, which have and may continue to face liquidity constraints under recent market conditions, to provide it with adequate liquidity.***

The market for over-the-counter traded securities has and may continue to experience limited liquidity and other weakness as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

## **Risks Relating to PFLT's Investments**

### ***PFLT's investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.***

PFLT intends to invest primarily in Floating Rate Loans, which may consist of senior secured loans, mezzanine debt and selected equity investments issued by U.S. middle-market companies.

1. ***Floating Rate Loans:*** Floating rate loans PFLT invests in are usually rated below investment grade or may also be unrated. Investments in Floating Rate Loans rated below investment grade are considered speculative because of the credit risk of their issuers. Such companies are more likely than investment grade issuers to

default on their payments of interest and principal owed to PFLT, and such defaults could reduce PFLT's NAV and income distributions. An economic downturn would generally lead to a higher non-payment rate by portfolio companies, and a floating rate loan may lose significant market value before a default occurs and PFLT may experience losses due to the inherent illiquidity of the investments. Moreover, any specific collateral used to secure a floating rate loan may decline in value

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or become illiquid, which would adversely affect the floating rate loan's value. Floating rate loans are subject to a number of risks, including liquidity risk and the risk of investing in below investment-grade, variable-rate securities.

Floating rate loans are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to PFLT, a reduction in the value of the investment and a potential decrease in PFLT's NAV. There can be no assurance that the liquidation of any collateral securing a floating rate loan would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that the collateral could be readily liquidated. In the event of bankruptcy or insolvency of a borrower, PFLT could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a floating rate loan. The collateral securing a Floating Rate Loan may lose all or substantially all of its value in the event of the bankruptcy or insolvency of a borrower. Some loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate the rights in collateral of such loans to presently existing or future indebtedness of the borrower or take other action detrimental to the holders of loans including, in certain circumstances, invalidating such loans or causing interest previously paid to be refunded to the borrower. Either such step could materially negatively affect PFLT's performance.

PFLT may acquire Floating Rate Loans through assignments or participations of interests in such loans. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to such debt obligation. However, the purchaser's rights can be more restricted than those of the assigning institution, and PFLT may not be able to unilaterally enforce all rights and remedies under an assigned debt obligation and with regard to any associated collateral. A participation typically results in a contractual relationship only with the institution participating out the interest and not directly with the borrower. Sellers of participations typically include banks, broker-dealers, other financial institutions and lending institutions. In purchasing participations, PFLT generally will have no right to enforce compliance by the borrower with the terms of the loan agreement against the borrower, and it may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, PFLT will be exposed to the credit risk of both the borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, PFLT will not be able to conduct the same level of due diligence on a borrower or the quality of the Floating Rate Loan with respect to which it is buying a participation as it would conduct if it were investing directly in the Floating Rate Loan. This difference may result in PFLT being exposed to greater credit or fraud risk with respect to such Floating Rate Loans than it expected when initially purchasing the participation.

**2. *Senior Secured Loans:*** When PFLT extends senior secured loans, which PFLT defines to include first lien debt, it will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, although this will not always be the case. PFLT expects this security interest, if any, to help mitigate the risk that it will not be repaid. However, there is a risk that the collateral securing PFLT's loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, PFLT's lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that PFLT will receive principal and interest payments according to the loan's terms, or at all, or that it will be able to collect on the loan should it be forced to enforce its remedies.

**3. *Mezzanine Debt:*** PFLT's mezzanine debt investments, which PFLT defines to include second lien secured and subordinated debt, will generally be subordinated to senior secured loans and will generally be unsecured. PFLT's second lien debt is subordinated debt that benefits from a collateral interest in the borrower. As such, other creditors

may rank senior to PFLT in the event of insolvency. This may result in an

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above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect PFLT's investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject PFLT and its stockholders to non-cash income. Since PFLT may not receive cash interest or principal prior to the maturity of some of its mezzanine debt investments, such investments may be of greater risk than cash paying loans.

**4. *Equity Investments:*** PFLT has made and expects to continue to make select equity investments, all of which are subordinated to debt investments. In addition, when PFLT invests in senior secured loans or mezzanine debt, it may acquire warrants to purchase equity investments from time to time. PFLT's goal is ultimately to dispose of these equity investments and realize gains upon its disposition of such interests. However, the equity investments PFLT receives may not appreciate in value and, in fact, may decline in value. Accordingly, PFLT may not be able to realize gains from its equity investments, and any gains that it does realize on the disposition of any equity investments may not be sufficient to offset any other losses it experiences. In addition, many of the equity securities in which PFLT invests may not pay dividends on a regular basis, if at all.

In addition, investing in middle-market companies involves a number of significant risks, including:

companies may be highly leveraged, have limited financial resources and may be unable to meet their obligations under their debt securities that PFLT holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of PFLT realizing any guarantees it may have obtained in connection with its investment;

they typically have shorter operating histories, more limited publicly-available information, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;

they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on PFLT's portfolio company and, in turn, on PFLT;

they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, PFLT's executive officers, directors and the PFLT Investment Adviser may, in the ordinary course of business, be named as defendants in litigation arising from PFLT's investments in the portfolio companies; and

they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

***Under the 1940 Act PFLT may invest up to 30% of its assets in investments that are not qualifying assets for business development companies. If PFLT does not invest a sufficient portion of its assets in qualifying assets, it could be precluded from investing in assets that it deems to be attractive.***

As a BDC, PFLT may not acquire any asset other than qualifying assets, as defined under the 1940 Act, unless at the time the acquisition is made such qualifying assets represent at least 70% of the value of its total assets. Qualifying assets include investments in U.S. operating companies whose securities are not listed on a national securities exchange and companies listed on a national securities exchange subject to a maximum market capitalization of \$250 million. Qualifying assets also include cash, cash equivalents, government securities and high quality debt securities maturing in one year or less from the time of investment.

PFLT believes that most of its debt and equity investments do and will constitute qualifying assets. However, PFLT may be precluded from investing in what it believes are attractive investments if such

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investments are not qualifying assets for purposes of the 1940 Act. If PFLT does not invest a sufficient portion of its assets in qualifying assets, it will be prohibited from making any additional investment that is not a qualifying asset and could be forced to forgo attractive investment opportunities. Similarly, these rules could prevent PFLT from making follow-on investments in existing portfolio companies (which could result in the dilution of its position) or could require PFLT to dispose of investments at inappropriate times in order to comply with the 1940 Act. If PFLT needs to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, PFLT may have difficulty in finding a buyer and, even if it does find a buyer, it may have to sell the investments at a substantial loss.

***PFLT is a non-diversified investment company within the meaning of the 1940 Act, and therefore it generally is not limited with respect to the proportion of its assets that may be invested in securities of a single issuer.***

PFLT is classified as a non-diversified investment company within the meaning of the 1940 Act, which means that it is not limited by the 1940 Act with respect to the proportion of its assets that it may invest in securities of a single issuer, excluding limitations on investments in other investment companies. To the extent that PFLT assumes large positions in the securities of a small number of issuers, its NAV may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. PFLT may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond PFLT's income tax diversification requirements, it does not have fixed guidelines for diversification, and its investments could be concentrated in relatively few portfolio companies.

***Economic recessions or downturns could impair PFLT's portfolio companies and harm its operating results.***

Many of PFLT's portfolio companies are susceptible to economic slowdowns or recessions and may be unable to repay loans from PFLT during these periods. Therefore, PFLT's non-performing assets are likely to increase, and the value of its portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of PFLT's loans and the value of its equity investments. Economic slowdowns or recessions could lead to financial losses in PFLT's portfolio and a material decrease in revenues, net income and assets. Unfavorable economic conditions also could increase PFLT's funding costs, limit PFLT's access to the capital markets or result in a decision by lenders not to extend credit to PFLT. These events could prevent PFLT from increasing investments and materially harm its operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by PFLT or other lenders could lead to defaults and potential termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize PFLT's portfolio company's ability to meet its obligations under the debt securities that PFLT holds. PFLT may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. Depending on the facts and circumstances of PFLT's investments and the extent of PFLT's involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy court may recharacterize its debt investments as equity investments and subordinate all or a portion of its claim to that of other creditors. This could occur regardless of how PFLT may have structured its investment.

***If PFLT fails to make follow-on investments in its portfolio companies, this could materially impair the value of its portfolio.***

Following an initial investment in a portfolio company, PFLT may make additional investments in that portfolio company as follow-on investments, in order to:



increase or maintain in whole or in part its equity ownership percentage;

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exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or

attempt to preserve or enhance the value of its investment.

PFLT has the discretion to make any follow-on investments, subject to the availability of capital resources and regulatory considerations. PFLT may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. Any failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and PFLT's initial investment, or may result in a missed opportunity for it to increase its participation in a successful operation. Even if PFLT has sufficient capital to make a desired follow-on investment, it may elect not to make a follow-on investment because it may not want to increase its concentration of risk, because it prefers other opportunities, or because it is inhibited by compliance with BDC requirements or the desire to maintain its RIC status.

***Because PFLT does not generally hold controlling equity interests in its portfolio companies, it is not in a position to exercise control over its portfolio companies or to prevent decisions by management of its portfolio companies that could decrease the value of its investments.***

Because PFLT does not generally have controlling equity positions in its portfolio companies, it is subject to the risk that a portfolio company may make business decisions with which it disagrees, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to its interests. Due to the lack of liquidity for the debt and equity investments that PFLT typically holds in its portfolio companies, PFLT may not be able to dispose of its investments in the event it disagrees with the actions of a portfolio company, and may therefore suffer a decrease in the value of its investments.

***An investment strategy focused primarily on privately held companies, including controlling equity interests, presents certain challenges, including the lack of available or comparable information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.***

PFLT has invested and intends to continue to invest primarily in privately held companies. Generally, little public information exists about these companies, and PFLT relies on the ability of the PFLT Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If they are unable to uncover all material information about these companies, PFLT may not make a fully informed investment decision, and it may lose value on its investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could have a material adverse impact on PFLT's investment returns as compared to companies investing primarily in the securities of public companies.

***PFLT's portfolio companies may incur debt that ranks equally with, or senior to, its investments in such companies.***

PFLT invests primarily in Floating Rate Loans issued by its portfolio companies. The portfolio companies usually will have, or may be permitted to incur, other debt that ranks equally with, or senior to, PFLT's investments. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which PFLT is entitled to receive payments in respect of the debt securities in which it invests. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to PFLT's investment in that portfolio company would typically be entitled to receive payment in full before PFLT receives any distribution in respect of its investment. After repaying such senior

creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to PFLT. In the case of debt ranking equally with debt securities in which PFLT invests, PFLT would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

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### ***PFLT's incentive fee may induce the PFLT Investment Adviser to make speculative investments.***

The incentive fee payable by PFLT to the PFLT Investment Adviser may create an incentive for PFLT Investment Adviser to make investments on PFLT's behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to the PFLT Investment Adviser is calculated based on a percentage of PFLT's return on invested capital. This may encourage the PFLT Investment Adviser to use leverage to increase the return on PFLT's investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of PFLT Common Stock. In addition, the PFLT Investment Adviser will receive the incentive fee based, in part, upon net capital gains realized on PFLT's investments. Unlike that portion of the incentive fee based on income, there is no hurdle applicable to the portion of the incentive fee based on net capital gains. As a result, the PFLT Investment Adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in PFLT's investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The part of PFLT's incentive fee payable by it to the PFLT Investment Adviser that relates to PFLT's investment income is computed and paid on income that has been accrued but that has not been received in cash. The PFLT Investment Adviser is not obligated to reimburse PFLT for any such incentive fees even if PFLT subsequently incur losses or never receive in cash the deferred income that was previously accrued. As a result, there is a risk that PFLT will pay incentive fees with respect to income that it never receives in cash.

### ***PFLT's investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.***

PFLT's investment strategy contemplates potential investments in securities of companies located outside of the United States. Investments in securities located outside the United States would not be qualifying assets under Section 55(a) of the 1940 Act. Investing in companies located outside of the United States may expose PFLT to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of PFLT's investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. PFLT may employ hedging techniques such as using the Credit Facility's multicurrency capability to minimize these risks, but it can offer no assurance that it will, in fact, hedge currency risk or, that if it does, such strategies will be effective.

### ***PFLT may make investments that cause its stockholders to bear investment advisory fees and other expenses on such investments in addition to its management fees and expenses.***

PFLT may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. To the extent PFLT so invests, it will bear the ratable share of any such investment company's expenses, including management and performance fees. PFLT will also remain obligated to pay

investment advisory fees, consisting of a base management fee and an incentive fee, to the PFLT Investment Adviser with respect to investments in the securities and instruments of other

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investment companies under the PFLT Investment Management Agreement. With respect to any such investments, each of PFLT's stockholders will bear his or her share of the investment advisory fees of the PFLT Investment Adviser as well as indirectly bearing the investment advisory fees and other expenses of any investment companies in which PFLT invests.

***The effect of global climate change may impact the operations of PFLT's portfolio companies.***

There may be evidence of global climate change. Climate change creates physical and financial risk and some of PFLT's portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of PFLT's portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of PFLT's portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

***PFLT may be obligated to pay the PFLT Investment Adviser incentive compensation even if it incurs a loss.***

The PFLT Investment Adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of PFLT's investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. PFLT's Pre-Incentive Fee Net Investment Income for incentive compensation purposes excludes realized and unrealized capital losses that PFLT may incur in the fiscal quarter, even if such capital losses result in a net loss on PFLT's Consolidated Statements of Operations for that quarter. Thus, PFLT may be required to pay the PFLT Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of PFLT's portfolio or it incur a net loss for that quarter.

***PFLT may expose itself to risks if it engages in hedging transactions.***

If PFLT engages in hedging transactions, it may expose itself to risks associated with such transactions. PFLT may borrow under a multicurrency credit facility in currencies selected to minimize its foreign currency exposure or, to the extent permitted by the 1940 Act and applicable commodities laws, use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of its portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of PFLT's interest rate or currency positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging designed to gain from those changes in interest rates or foreign currency exposures, for instance, may also limit the opportunity for gain if the changes in the underlying positions should move against such hedges. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that PFLT is not able to enter into a hedging transaction at an acceptable price.

While PFLT may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if PFLT had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, PFLT may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent PFLT from achieving the intended hedge and expose PFLT to risk of loss. In addition, it may not be possible to hedge fully or

perfectly against currency fluctuations affecting the value of

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securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations. PFLT's ability to engage in hedging transactions may also be adversely affected by recent rules adopted by the Commodity Futures Trading Commission.

***Any investments in distressed debt may not produce income and may require PFLT to bear large expenses in order to protect and recover its investment.***

Distressed debt investments may not produce income and may require PFLT to bear certain additional expenses in order to protect and recover its investment. Therefore, to the extent PFLT invests in distressed debt, its ability to achieve current income for its stockholders may be diminished. PFLT also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which it invests will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt PFLT holds, there can be no assurance that the securities or other assets received by PFLT in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by PFLT upon completion of an exchange offer or plan of reorganization may be restricted as to resale. If PFLT participates in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, it may be restricted from disposing of such securities.

**Risks Relating to an Investment in PFLT Common Stock**

***PFLT may obtain the approval of its stockholders to issue shares of PFLT Common Stock at prices below the then-current NAV per share of PFLT Common Stock. If PFLT receives such approval from stockholders in the future, it may issue shares of PFLT Common Stock at a price below the then-current NAV per share of PFLT Common Stock. Any such issuance could materially dilute your interest in PFLT Common Stock and reduce PFLT's NAV per share.***

PFLT intends to seek to obtain from its stockholders and they may approve a proposal that authorizes it to issue shares of PFLT Common Stock at prices below the then-current NAV per share of PFLT Common Stock in one or more offerings for a 12-month period. Such approval would allow PFLT to access the capital markets in a way that it was previously unable to do as a result of restrictions that, absent stockholder approval, apply to BDCs under the 1940 Act.

Any sale or other issuance of shares of PFLT Common Stock at a price below NAV per share will result in an immediate dilution to your interest in PFLT Common Stock and a reduction of PFLT's NAV per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in PFLT's earnings and assets and voting interest in PFLT than the increase in its assets resulting from such issuance. Because the number of future shares of PFLT Common Stock that may be issued below PFLT's NAV per share and the price and timing of such issuances are not currently known, PFLT cannot predict the actual dilutive effect of any such issuance. PFLT also cannot determine the resulting reduction in its NAV per share of any such issuance at this time. PFLT cautions you that such effects may be material, and PFLT undertakes to describe all the material risks and dilutive effects of any offerings it makes at a price below its then-current NAV in the future in a prospectus supplement issued in connection with any such offering.

The determination of NAV in connection with an offering of shares of PFLT Common Stock will involve the determination by PFLT's board of directors or a committee thereof that PFLT is not selling shares of its PFLT Common Stock at a price below the then current NAV of PFLT Common Stock at the time at which the sale is made



or otherwise in violation of the 1940 Act unless it has previously received the consent of the majority of its stockholders to do so and the board of directors decides such an offering is in the best interests of PFLT's common stockholders. Whenever PFLT does not have current stockholder approval to issue shares of

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PFLT Common Stock at a price per share below its then current NAV per share, the offering price per share (exclusive of any distributing commission or discount) will equal or exceed its then-current NAV per share, based on the value of its portfolio securities and other assets determined in good faith by its board of directors as of a time within 48 hours (excluding Sundays and holidays) of the sale.

***There is a risk that PFLT's stockholders may not receive distributions or that PFLT's distributions may not grow over time.***

PFLT intends to make distributions on a monthly basis to its stockholders out of assets legally available for distribution. PFLT cannot assure you that it will achieve investment results that will allow it to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage ratio applicable to PFLT as a BDC, it may be limited in its ability to make distributions. Further, if more stockholders opt to receive cash dividends and other distributions rather than participate in PFLT's dividend reinvestment plan, PFLT may be forced to liquidate some of its investments and raise cash in order to make distribution payments, which could materially harm its business. Finally, to the extent PFLT makes distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of PFLT Common Stock.

***Investing in PFLT's shares may involve an above average degree of risk.***

The investments PFLT makes in accordance with its investment objectives may result in a higher amount of risk and volatility than alternative investment options or loss of principal. PFLT's investments in portfolio companies may be highly speculative and aggressive and therefore, an investment in PFLT's shares may not be suitable for someone with lower risk tolerance.

***PFLT may allocate the net proceeds from any offering of its securities in ways with which you may not agree.***

PFLT has significant flexibility in investing the net proceeds of any offering of its securities and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

***PFLT's shares may trade at discounts from NAV or at premiums that are unsustainable over the long term.***

Shares of BDCs may trade at a market price that is less than the NAV that is attributable to those shares. PFLT's shares have traded above and below its NAV. PFLT's shares closed on NASDAQ at \$14.30 on May 6, 2015. PFLT's NAV per share was \$14.30 as of March 31, 2015. The possibility that PFLT 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 PFLT's NAV will decrease. It is not possible to predict whether PFLT's shares will trade at, above or below NAV in the future.

***The market price of PFLT Common Stock may fluctuate significantly.***

The market price and liquidity of the market for shares of PFLT Common Stock may be significantly affected by numerous factors, some of which are beyond PFLT's control and may not be directly related to its operating performance. These factors include:

significant volatility in the market price and trading volume of securities of BDCs or other companies in PFLT's sector, which are not necessarily related to the operating performance of these companies;

changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs;

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any loss of PFLT's BDC or RIC status;

changes in earnings or variations in operating results;

changes in prevailing interest rates;

changes in the value of PFLT's portfolio of investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the inability of the PFLT Investment Adviser to employ additional experienced investment professionals or the departure of any of the PFLT Investment Adviser's key personnel;

operating performance of companies comparable to PFLT;

general national and international economic trends and other external factors;

general price and volume fluctuations in the stock markets, including as a result of short sales;

conversion features of subscription rights, warrants or convertible debt; and

loss of a major funding source.

Since PFLT's initial listing on NASDAQ, PFLT Common Stock has traded at a wide range of prices. PFLT can offer no assurance that PFLT Common Stock will not display similar volatility in future periods.

***PFLT may be unable to invest the net proceeds raised from offerings on acceptable terms, which would harm its financial condition and operating results.***

Until PFLT identifies new investment opportunities, it intends to either invest the net proceeds of future offerings in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less or use the net proceeds from such offerings to reduce then-outstanding obligations under the Credit Facility. PFLT cannot assure you that it will be able to find enough appropriate investments that meet its investment criteria or that any investment it completes using the proceeds from an offering will produce a sufficient return.

***Sales of substantial amounts of PFLT's securities may have an adverse effect on the market price of its securities.***

Sales of substantial amounts of PFLT's securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for its securities. If this occurs and continues it could impair PFLT's ability to raise additional capital through the sale of securities should it desire to do so.

***You may have current tax liabilities on distributions you reinvest in PFLT Common Stock.***

Under the dividend reinvestment plan, if you own shares of PFLT Common Stock registered in your own name, you will have all cash distributions automatically reinvested in additional shares of PFLT Common Stock unless you opt out of the dividend reinvestment plan by delivering a written notice to the plan administrator prior to the record date of the next dividend or distribution. If you have not opted out of the dividend reinvestment plan, you will be deemed to have received, and for federal income tax purposes will be taxed on, the amount reinvested in PFLT Common Stock to the extent the amount reinvested was not a tax-free return of capital. As a result, you may have to use funds from other sources to pay your federal income tax liability on the value of the PFLT Common Stock received. See

Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Distributions for more information.

***There is a risk that PFLT's stockholders may receive its stock as distributions in which case they may be required to pay taxes in excess of the cash they receive.***

PFLT may distribute PFLT Common Stock as a dividend of its taxable income and a stockholder could receive a portion of the dividends declared and distributed by PFLT in shares of PFLT Common Stock with the

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remaining amount in cash. A stockholder will be considered to have recognized dividend income equal to the fair market value of the stock paid by PFLT plus cash received with respect to such dividend. The total dividend declared would be taxable income to a stockholder even though he or she may only receive a relatively small portion of the dividend in cash to pay any taxes due on the dividend. PFLT has not elected to distribute stock as a dividend but reserves the right to do so.

***PFLT incurs significant costs as a result of being a publicly traded company.***

As a publicly traded company, PFLT incurs legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, and other rules implemented by the SEC and the listing standards of the NASDAQ Stock Market LLC.

***Provisions of the Maryland General Corporation Law and of PFLT's charter and bylaws could deter takeover attempts and have an adverse impact on the price of PFLT Common Stock.***

The Maryland General Corporation Law, PFLT's charter and amended and restated bylaws, or the PFLT bylaws, contain provisions that may discourage, delay or make more difficult a change in control of PFLT or the removal of its directors. PFLT is subject to the Maryland Business Combination Act, the application of which is subject to any applicable requirements of the 1940 Act. PFLT's board of directors has adopted a resolution exempting from the Business Combination Act any business combination between PFLT and any other person, subject to prior approval of such business combination by PFLT's board, including approval by a majority of its disinterested directors. If the resolution exempting business combinations is repealed or PFLT's board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of PFLT and increase the difficulty of consummating such an offer.

In addition, the PFLT bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of PFLT Common Stock by any person. If PFLT amends the PFLT bylaws to repeal the exemption from such act, it may make it more difficult for a third party to obtain control of PFLT and increase the difficulty of consummating such an offer. Also, PFLT's charter provides for classifying its board of directors in three classes, with directors serving classified terms expiring at the third annual meeting of stockholders following their election, and provisions of its charter authorize its board of directors to classify or reclassify shares of its stock in one or more classes or series, to cause the issuance of additional shares of its stock, and to amend its charter, without stockholder approval, to increase or decrease the number of shares of stock that it has authority to issue.

These anti-takeover provisions may inhibit a change of control in circumstances that could give PFLT's stockholders the opportunity to realize a premium over the market price for PFLT Common Stock. See [Description of PFLT's Capital Stock](#), [Provisions of the Maryland General Corporation Law and PFLT's Charter and Bylaws](#), [Business combinations](#), [Control share acquisitions](#) and [Classified board of directors](#).

**RISKS RELATING TO MCG**

***Investing in lower middle-market companies is inherently risky. MCG's financial results may be affected adversely if one or more of its portfolio investments defaults on its loans or fails to perform.***

MCG's portfolio consists primarily of debt and equity investments in privately owned lower middle-market companies. Investing in lower middle-market companies involves a number of significant risks. The debt in which MCG invests is

typically not rated. When rated by one or more rating agencies, a majority of MCG's investments are rated below investment grade and have the highest risk of default among corporate bonds, typically referred to as junk bonds. Compared to larger publicly traded companies with greater financial, technical and marketing resources, lower middle-market companies typically have fewer resources and may

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experience wider variations in their operating results, making them more vulnerable to economic downturns. Lower middle-market companies experience limited access to capital and the cost of capital is usually higher than for their larger competitors. Many lower middle-market companies are unable to obtain financing from public capital markets or from traditional credit sources, such as commercial banks, often because they are perceived to pose a higher default risk. The success of lower middle-market companies often depends heavily on the managerial talents and efforts of an individual or a small group of persons. Therefore, the loss of any key employee could harm both its financial condition and its ability to compete effectively. Further, some lower middle-market companies conduct business in regulated industries. Changes in the regulatory environment impacting lower middle-market companies could result in significant expenditures and impair cash flow by making it difficult for them to conduct business in a cost effective manner, and have more dire effects, including bankruptcy. Even minor events may adversely affect the value of a loan's collateral and a company's ability to repay its obligations, which in turn may adversely affect the return on, or the recovery of, its investment in these businesses.

When evaluating a potential investment, MCG must rely on its employees' diligence to obtain information necessary to make well informed investment decisions. If MCG fails to uncover material information about its portfolio companies, either prior to or after its investment, MCG may lose money. A portfolio company's failure to satisfy financial or operating covenants imposed by MCG or other lenders could lead to defaults under MCG's loan documents and trigger cross-defaults under other agreements. Should other lenders choose to accelerate their loans and/or foreclose on the company's secured assets, it could jeopardize the portfolio company's ability to meet its obligations under MCG's debt securities. MCG may also incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

***Very few of MCG's portfolio investments are publicly traded and, as a result, their value is uncertain. If MCG's determinations regarding the fair value of its investments are higher than that which it ultimately realizes upon disposition, MCG's NAV could be affected adversely.***

Typically, there is no public market for the securities of the privately held companies in which MCG has invested, and in which MCG generally expects to continue to invest. In accordance with the 1940 Act and accounting principles generally accepted in the United States, MCG carries substantially all of its portfolio investments at fair value as determined in good faith by the MCG board of directors.

Whenever possible, the MCG board of directors values its securities at market value; however, since very few of MCG's investments are traded publicly the board considers various factors to assist it in determining fair value during the valuation process. For example, depending on the nature of the investment, the board may examine public and private mergers and acquisitions transactions, comparisons to publicly traded comparable companies, third-party assessments of valuation, discounted cash flow analyses, the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments, the markets in which the portfolio company does business, market-based pricing, bond-yield analysis and other relevant factors. MCG also obtains financial and other information from portfolio companies, which may include unaudited, projected or pro forma financial information. MCG's board of directors also engages independent valuation firms to assist in determining the fair value of MCG's investments. Because valuations, particularly those of private securities and private companies, are inherently uncertain, they may fluctuate over short periods of time and are often based on estimates. MCG's determinations of fair value may differ materially from the values that would have been used if a readily available market for these investments existed and from the amounts MCG may realize on any disposition of such investments. If MCG's determinations regarding the fair value of its investments are materially higher than the values that it ultimately realize upon the disposition of such investments, MCG's NAV could be affected adversely.



***The general volatility of the financial markets and the economy could impair MCG's portfolio companies' financial positions and operating results, which, in turn, could harm MCG's operating results.***

The future of the United States economy, sub-sectors of the broader economy and state and local economies in which MCG invests, is unclear. If economic performance in these markets declines in the future, the financial

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results of MCG's lower middle-market portfolio companies may experience deterioration or limited growth. Prolonged, unfavorable or uncertain economic and market conditions may impact the ability of MCG's portfolio companies to service their debt or engage in a liquidity event, such as a sale, merger, recapitalization or initial public offering.

Should this happen, MCG may experience a loss of value in its portfolio and decreases in its revenues, net income and net assets. Adverse economic conditions also may impair the value of collateral securing some of MCG's loans and the value of its equity investments.

***MCG operates in a highly competitive market for investment opportunities, and the success of its business model necessitates that MCG develop and maintain strong referral relationships. Failure to do so, or to offer desirable investment terms, may preclude MCG from winning new business and adversely affect its financial conditions and results of operations.***

MCG competes with many types of investors for the portfolio companies in which it invests, including public and private funds (including other BDCs), commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds or hedge funds. As a result of these entrants, competition for investment opportunities has intensified in recent years and may intensify further in the future. A majority of MCG's competitors are substantially larger and have considerably greater financial, technical and marketing resources. Some may also have a lower cost of funds and access to funding sources that are not available to MCG. In addition, some of MCG's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments that may lead to additional market share and a competitive advantage over MCG. Unlike many of its competitors, MCG is also subject to regulatory restrictions and valuation requirements the 1940 Act imposes on MCG as a BDC.

The myriad competitive pressures MCG faces require its management team to develop and maintain strong relationships with intermediaries, financial institutions, investment bankers, commercial bankers, financial advisors, attorneys, accountants, consultants and other individuals within its network in order to keep apprised of potential investment opportunities. MCG has experienced significant executive turnover and staff reductions while it monetized a majority of its investments and repurchased MCG Common Stock in the open market, which MCG believes has negatively impacted its ability to remain active investors with current or prospective clients. If MCG's management team fails to maintain its existing relationships or develop new ones with important sources of investment opportunities, the company may fail to remain competitive for new business or to generate positive net operating income and its investment portfolio may languish as a result. Regardless of the strength of relationships, no one is obligated to provide MCG with investment opportunities, and there is no assurance that such relationships will generate investment opportunities for the company.

While MCG does not seek to compete primarily based on the interest rates it offers, MCG may lose investment opportunities if MCG does not match its competitors' pricing, terms and structure. If MCG does match its competitors' pricing, terms and structure to win business, it may then experience a decrease in investment income resulting from lower net earning assets. MCG may be precluded from taking advantage of attractive investment opportunities from time to time as a result of an inability to meet market terms, and it can offer no assurance that it will be able to identify and successfully make investments that are consistent with its investment objective. Failure to compete effectively for, and establish strong relationships that could lead to, new business would have a material adverse effect on MCG's business, financial condition and results of operations.

***MCG's portfolio is concentrated in certain industries, which increases its risk of significant loss if any one of these companies fails to service MCG's debt because of industry downturns.***

From time to time, MCG targets specific industries in which to invest on a recurring basis, which may result in significant concentrations in its portfolio. As a consequence, the aggregate returns MCG realizes may be

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substantially adversely affected by the unfavorable performance of a small number of such investments or a substantial write-down of any one investment. Beyond regulatory and income tax diversification requirements, MCG does not have fixed guidelines for industry concentration. In addition, while it generally decline to make investments in a particular industry or group of industries that would exceed 15.0% of MCG's total assets at the time of Closing Date, it is possible that as the values of its portfolio companies change, one industry or a group of industries may come to exceed such level. As a result, a downturn in an industry in which MCG has invested a significant portion of its total investments could have a materially adverse effect on the company. As of March 31, 2015, due to the number of recent monetizations and loan repayments, 99.5% of MCG's total investments at fair value were invested in healthcare, business services and broadcasting industries. As of December 31, 2014, due to the number of recent monetizations and loan repayments, 59.2%, 18.8% and 12.2% of MCG's total investments at fair value were invested in healthcare, business services and broadcasting industries, respectively. Therefore, MCG is susceptible to the economic circumstances in these industries, and a downturn in any one of these industries could have a material adverse effect on MCG's results of operations and financial condition.

***Changes, enforcement or interpretation of healthcare or other laws and regulations applicable to some of MCG's portfolio companies' businesses may constrain their ability to offer their products and services.***

Changes, enforcement or interpretation of healthcare or other laws and regulations applicable to the businesses of some of MCG's portfolio companies may increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation, regulation, enforcement or interpretation may have a material effect on the business and operations of some of MCG's portfolio companies.

***MCG must effectively manage and deploy capital to ensure its financial condition and results of operations. If MCG fails to do so, it could experience a decline in its business prospects and the loss of key employees, both of which could negatively affect MCG's operating results.***

Equity capital is, and may continue to be, difficult to raise because MCG generally is not able to issue and sell its common stock at a price below NAV per share without stockholder approval. In addition, available debt capital may be costly and/or carry less favorable terms and conditions. Therefore, MCG's ability to maximize its portfolio's total return depends on the ability to successfully manage and deploy capital effectively. MCG's debt investments generate capital from current income, and its equity and equity-related investments generally provide capital appreciation, enhancing its overall operating results. MCG's ability to identify and evaluate, and ultimately to finance and invest in, companies that will produce the desired financial gains rests squarely in the hands of its investment team.

Accomplishing MCG's investment objectives on a cost-effective basis is largely a function of its investment team's handling of the investment process, its ability to provide competent, attentive and efficient services and MCG's access to investments offering acceptable terms. In addition to monitoring the performance of its existing investments, members of MCG's investment team are also called upon, from time to time, to provide managerial assistance to some of MCG's portfolio companies. These demands on their time may distract them or slow the rate of investment capital.

MCG's results of operations will depend on many factors, including the availability of opportunities for investment, and economic conditions. Furthermore, if MCG cannot successfully operate its business or implement its investment policies and strategies it could negatively impact MCG's ability to pay dividends. The prolonged inability to effectively deploy capital could negatively impact MCG's business prospects, cause the departure of key employees and have an adverse impact on its operating results.

***MCG's ability to raise additional capital is limited by the market price of its common stock and by regulations governing its operations as a BDC.***

Although shares of closed-end investment companies frequently trade at a market price that is less than the NAV attributable to those shares, this characteristic has no correlation with the risk of decline to MCG's own

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NAV. It is not possible to predict whether MCG Common Stock will trade at, above, or below NAV. In the recent past, the stocks of BDCs as an industry, including shares of MCG Common Stock, have traded below NAV as a result of concerns over market conditions, credit concerns, liquidity, dividend coverage, leverage restrictions, distribution requirements and various other reasons. When MCG Common Stock trades below its NAV per share, the 1940 Act prohibits it from selling shares of its common stock at a price below the current NAV unless MCG stockholders approve such a sale and the MCG board of directors makes certain determinations.

MCG has issued debt securities and may in the future incur additional debt, issue preferred stock, and/or borrow money from banks or other financial institutions, which are referred to collectively as senior securities. Under the provisions of the 1940 Act, as a BDC MCG is permitted to issue senior securities only in amounts such that MCG's BDC asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of MCG's assets declines MCG may be unable to satisfy this test, precluding it from issuing senior securities and paying dividends. MCG may also be required to sell a portion of its investments and, depending on the nature of its leverage, repay a portion of its indebtedness at a time when such sales may be disadvantageous.

***If MCG fails to qualify as a RIC, MCG will have to pay corporate-level taxes on its income and its income available for distribution would be reduced significantly or eliminated.***

MCG has elected to be taxed for federal income tax purposes as a RIC, under Subchapter M of the Code. To qualify as a RIC under the Code, MCG must meet certain source-of-income, asset diversification and the Annual Distribution Requirement and maintain its status as a BDC, including:

**Sources of Income.** MCG must obtain at least 90% of its income each year from dividends, interest, gains from the sale of stock or securities or similar sources.

**Asset Diversification.** At the end of each taxable year, at least 50% of the value of MCG's assets must consist of cash, cash equivalents, U.S. government securities, securities of other RICs, and other acceptable securities. No more than 25% of the value of MCG's assets may be invested in the securities, other than U.S. government securities or securities of other RICs, (i) of one issuer, or (ii) of two or more issuers that are controlled, as determined under applicable Code rules, by MCG and that are engaged in the same or similar or related trades or businesses or of certain qualified publicly traded partnerships.

**Income Distribution.** MCG must distribute to its stockholders at least 90% of its ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, on an annual basis. Because MCG is subject to an asset coverage ratio requirement under the 1940 Act, and may also be subject to certain financial covenants under any debt financings MCG may incur, MCG could, under certain circumstances, be restricted from making the distributions necessary to satisfy the IRS requirement.

As MCG's total assets continue to decline associated with its stock repurchase program and tender offer, dividend distributions to stockholders and other transactions that reduce MCG's total assets, there is an increased risk of non-qualification as a RIC due to the 50% or 25% asset diversification test as outlined in Code Section 851(b)(3). The 50% diversification test requires at least 50% of the value of a RIC's total assets be invested in cash, cash items (including receivables), government securities (as defined under the 1940 Act), securities of other RICs, or investments in other securities that, with respect to any one issuer, do not represent more than 5% of the RIC's assets or more than 10% of the issuer's voting securities.

The 25% diversification test requires that not more than 25% of the value of the company's total assets are invested in the securities (other than government securities or the securities of other RICs) of any one issuer, or of two or more issuers which the taxpayer controls and which are determined to be engaged in the same or similar trades or businesses. The term "controls" means the ownership of 20% or more of the total combined voting power of all classes of voting stock in a corporation.

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The 50% and 25% diversification test must be satisfied at the end of each quarter of a RIC's taxable year.

Failure to meet the foregoing requirements may result in MCG having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of MCG's investments will be in private companies, and, therefore, will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in losses. If MCG fails to qualify as a RIC for any reason it would become subject to corporate-level income tax, substantially reducing its net assets, the amount of income available for distribution, if any, and the amount of its distributions. Such a failure would have a material adverse effect on MCG stockholders and the company.

***If MCG fails to establish new credit facilities on favorable terms, its business could be harmed materially.***

MCG cannot be certain that it will be able to establish new borrowing facilities to provide working and investment capital, including for new originations. If MCG is unable to establish new facilities of a reasonable size, its liquidity will be reduced significantly. Even if MCG is able to consummate new borrowing facilities, it may not be able to do so on favorable terms.

***MCG may be unable to obtain debt capital on favorable terms or at all, in which case it would not be able to use leverage to increase the return on its investments.***

If MCG is unable to obtain debt capital, then its equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that its investment strategy is successful and MCG may be limited in its ability to make new commitments or fundings to its portfolio companies.

***Prepayments of MCG's debt investments by its portfolio companies could adversely impact MCG's results of operations and reduce its return on equity.***

MCG is subject to the risk that the investments it makes in its portfolio companies may be repaid prior to maturity. When this occurs, MCG could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, MCG's results of operations could be materially adversely affected if one or more of its portfolio companies elect to prepay amounts owed to MCG. Additionally, prepayments could negatively impact MCG's return on equity, which could result in a decline in the market price of MCG Common Stock.

***In situations where MCG holds junior priority liens, its ability to control decisions with respect to its portfolio companies may be limited by lenders holding superior liens. In a default scenario, the value of collateral may be insufficient to repay MCG after the senior priority lenders are paid in full.***

MCG makes certain loans to portfolio companies that are secured by a junior priority security interest in the same collateral pledged to secure debt owed to lenders with liens senior to MCG's. Often the senior lender has procured covenants from the portfolio company prohibiting the incurrence of additional secured debt without the senior lender's consent. As a condition of permitting the portfolio company to incur junior secured indebtedness, the senior lender will require that MCG as junior lender enter into an intercreditor agreement that, among other things, will establish the senior lender's right to control the disposition of any collateral in the event of an insolvency proceeding or other default situation. In addition, intercreditor agreements generally will expressly subordinate junior liens to senior liens as well as the repayment of junior debt to senior debt.

Because of the control MCG may cede to senior lenders under intercreditor agreements, it may be unable to control the manner or timing of collateral disposition. In addition, the value of collateral securing MCG's debt investment will



ultimately depend on market and economic conditions at the time of disposal, the availability of buyers and other factors. Therefore, there can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by MCG's liens. There is also a

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risk that such collateral securing MCG's investments will be difficult to sell in a timely manner or to appraise. If the proceeds of the collateral are insufficient to repay its loans, then MCG will have an unsecured claim to the extent of the deficiency against any of the company's remaining assets, which claim will likely be shared with many other unsecured creditors.

***As a debt or minority equity investor in a portfolio company, MCG may have little direct influence over the entity. The stockholders and management of the portfolio company may make decisions that could decrease the value of MCG's portfolio holdings.***

MCG makes both debt and minority equity investments. Should a portfolio company make business decisions with which MCG disagrees, or the stockholders and management of that company take risks or otherwise act in ways that do not serve MCG's interests, the value of MCG's portfolio holdings could decrease and have an adverse effect on its financial position and results of operations.

***If MCG needs to sell any of its investments, MCG may not be able to do so at a favorable price and, as a result, MCG may suffer losses.***

MCG's investments usually are subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market. The illiquidity of most of MCG's investments may make it difficult for it to dispose of them at a favorable price. As a result, MCG may suffer losses. In addition, if MCG were forced to liquidate some or all of the investments in its portfolio on an expedited basis, the proceeds of such liquidation could be significantly less than the current fair value of such investments. MCG may be required to liquidate some or all of its portfolio to meet its debt service obligations or to maintain its qualification as a BDC and as a RIC to the extent it fails to satisfy the applicable regulatory criteria.

***The disposition of MCG's investments may result in contingent liabilities.***

Most of its investments involve private securities. In connection with the disposition of an investment in private securities, MCG may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. MCG may also be required to indemnify the purchasers of such investment with respect to certain potential liabilities or to the extent that any of its representations turn out to be inaccurate. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through its return of certain distributions previously made to MCG.

***Portfolio company litigation could result in additional costs, the diversion of management time and resources and have an adverse impact on the fair value of MCG's investment.***

In the course of providing significant managerial assistance to certain of its portfolio companies, MCG may serve as directors on the boards of such companies. In addition, in the course of making portfolio company investments, MCG may elect to take an equity position in any given company. To the extent that litigation arises out of its investments, MCG may be named as a defendant, which could result in additional costs and the diversion of management time and resources. In addition, litigation involving a portfolio company may be costly and affect the operations of the business, which could in turn have an adverse impact on the fair value of MCG's investment.

***There may be circumstances where MCG's debt investments could be subordinated to claims of other creditors or MCG could be subject to lender liability claims.***

If one of MCG's portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which MCG provided managerial assistance to that portfolio company, a bankruptcy court could elect to subordinate all or a portion of MCG's claims to those of other creditors regardless of the seniority

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of its original investment. In such instances, the court may deem MCG's actions to be more like that of an equityholder than a debt holder. Were that to occur, the claims MCG carried as senior in right of payment on its books might instead be recharacterized by the court as junior, and therefore come much lower in the priority of payments. To the extent that there are insufficient funds remaining to pay it once other debtholders are paid in full, MCG may lose all or a portion of its investment.

The actions MCG takes with respect to a portfolio company's business, including providing managerial assistance, or the exercise of control over a portfolio company could also give rise to lender liability claims. Should MCG's actions be viewed as more akin to those of an equityholder than a debtholder because of MCG's involvement in the operations of the portfolio company, a presumption could arise that it has a fiduciary duty to the portfolio company. A third party could then sue MCG, for example, in an attempt to make it liable for any negative performance by such portfolio company.

***MCG may choose to waive or defer enforcement of covenants in the debt securities held in its portfolio, which may cause it to lose all or part of its investment in these companies.***

MCG structures the debt investments in its portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time MCG may elect to waive breaches of these covenants, including its right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of MCG's receipt of the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact MCG's ability to pay dividends, could adversely affect its results of operation and financial condition and cause the loss of all or part of your investment.

***Any unrealized losses experienced by MCG on its investment portfolio may be an indication of future realized losses, which could reduce MCG's income available for distribution and could impair MCG's ability to service its borrowings, if any.***

As a BDC, MCG is required to carry its investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by MCG's board of directors. Decreases in the market values or fair values of MCG's investments will be recorded as unrealized depreciation. Any unrealized depreciation in MCG's investment portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to MCG with respect to the affected investments. This could result in realized losses in the future and ultimately in reductions of MCG's income available for distribution in future periods and could materially adversely affect its ability to service its outstanding borrowings, if any.

***MCG's stock price has been, and continues to be, volatile and purchasers of MCG Common Stock could incur substantial losses.***

The stock market in general, and the market prices for securities of financial services companies in particular, have experienced extreme volatility that often has been unrelated or disproportionate to the operating performance of these companies. If current levels of market volatility continue or worsen, MCG may continue to experience an adverse effect, possibly material, on its ability to access capital and on its business, financial condition and results of operations.

The market price and the liquidity of the market for MCG's shares may from time to time be affected by a number of factors, which include, but are not limited to, the following:

MCG's quarterly results of operations;

MCG's origination activity, including the pace of, and competition for, new investment opportunities;

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price and volume fluctuations in the overall stock market from time to time;

investors' general perception of the company, the economy and general market conditions;

actual or anticipated changes in MCG's earnings or fluctuations in its operating results or changes in the expectations of securities analysts;

the financial performance of the specific industries in which MCG invests on a recurring basis, including without limitation, its investments in the healthcare, business services and education industries;

significant transactions or capital commitments by MCG or its competitors;

significant volatility in the market price and trading volume of securities of BDCs or other financial services companies;

volatility resulting from trading in derivative securities related to MCG Common Stock including puts, calls or short trading positions;

potential future sales of debt securities convertible into or exchangeable or exercisable for MCG Common Stock or the conversion of such securities;

the average trading volume and the ability of investors to obtain liquidity in MCG Common Stock in the open market, which may be negatively impacted by the number of shares MCG repurchases in the open market;

changes in laws or regulatory policies or tax guidelines with respect to BDCs or RICs;

loss of RIC status;

the inability to secure additional debt or equity capital;

announcements of strategic developments, acquisitions and other material events by MCG or its competitors;

litigation or regulatory actions affecting MCG or its portfolio companies; and

departures of key personnel.

If any of these factors causes an adverse effect on MCG's business, its results of operations or its financial condition, the price of MCG Common Stock could fall and investors may not be able to sell their common stock at or above their respective purchase prices.

***You may not receive future distributions.***

In the event that the asset coverage ratio applicable to MCG as a BDC falls below 200%, MCG will be unable to make distributions until the ratio again meets or exceeds the threshold. If MCG does not distribute at least 90% of its investment company taxable income annually, it will suffer adverse tax consequences, including the possible loss of its status as a RIC for the applicable period. From December 2001 through March 31, 2015, MCG has declared distributions totaling \$14.13 per common share. Due to the market dislocation, MCG suspended its distributions from the third quarter of 2008 through the first quarter of 2010. MCG reinstated its distribution on April 29, 2010, and until the third quarter of 2014 continued to declare a quarterly dividend. There can be no assurance that distributions will resume in the future.

MCG will make future decisions with respect to the actual level of distributions after taking into account the minimum statutorily required level of distributions, gains and losses recognized for tax purposes, portfolio transactional events, its liquidity, cash earnings and its BDC asset coverage ratio at the time of such decision. Regulatory constraints, MCG's inability to achieve operating results or a decline in the performance of its business could restrict MCG's ability to make any future distributions. In addition, MCG may not be able to make distributions at a specific level or to increase the amount of these distributions from time to time.

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### ***MCG may have difficulty paying its required distributions if it recognizes income before, or without, receiving cash representing such income.***

In accordance with applicable tax laws and regulations, MCG includes in taxable income certain amounts that MCG has not yet received in cash from its portfolio companies, such as contractual PIK interest, interest on loans that are on non-accrual status and original issue discount. PIK interest represents contractual interest added to the loan balance and due at the end of the loan term. Loans that are on non-accrual status reflect an inability of a portfolio company to make payments to MCG when due. Original issue discount may arise if MCG receives warrants in connection with the issuance of a debt instrument or in other circumstances. MCG is required to include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by MCG in the same taxable year. Other situations may also arise where MCG is required to include amounts in taxable income for which it has not yet received payment in cash.

MCG must distribute at least 90% of its investment company taxable income to maintain the tax benefits it enjoys as a RIC. This obligation applies whether or not that income was actually received in cash. Since MCG may recognize income before, or without, receiving cash representing such income, it may have difficulty meeting the requirement. To raise funds to make the required distributions, MCG may have to raise additional debt or equity capital at unattractive rates or on unfavorable conditions. MCG might also need to sell some of its investments at unfavorable prices, or repurpose the cash it had reserved for new investment originations. If it cannot obtain cash from these or other sources, MCG may fail to qualify as a RIC and, thus, be subject to corporate-level income tax.

### ***Any change in the regulation of MCG's business could have a significant adverse effect on the profitability of its operations and its cost of doing business.***

Changes in the laws, regulations or interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could have a significant adverse effect on MCG's operations and its cost of doing business. MCG is subject to federal, state and local laws and regulations and also to judicial and administrative decisions that affect its operations. If these laws, regulations or decisions change, or if MCG expands its business into jurisdictions that have adopted requirements that are more stringent than those in which it currently conducts business, MCG may have to incur significant expenses in order to comply or it may have to restrict its operations.

### ***MCG may in the future decide to issue preferred stock, which would magnify the risks of investing in the company, as well as the potential for loss.***

Because preferred stock is another form of borrowing and the dividends on any preferred stock MCG might issue would be cumulative, preferred stock has the same risks to its common stockholders as debt. MCG is obligated to pay the cumulative dividends and any liquidation preference attached to such preferred stock before it makes any payments to its common stockholders. While the value of preferred stock is unaffected by MCG's expenses or losses, preferred stockholders do not participate in any income or appreciation in excess of their stated preference. Holders of any preferred stock MCG might issue would have the right to elect members of the board of directors as well as class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status. Accordingly, preferred stockholders could veto changes to the detriment of the company and its common stockholders. See Description of MCG's Capital Stock Preferred Stock. MCG currently has no plans to issue preferred stock.

### ***Investments in equity securities involve a substantial degree of risk.***



MCG has purchased, and may purchase in the future, common stock and other equity securities, including warrants, in various portfolio companies. Although equity securities historically have generated higher average total returns than debt securities over the long term, equity securities may experience more volatility in those

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returns than debt securities. The equity securities MCG acquires may fail to appreciate, decline in value or lose all value, and MCG's ability to recover its investment will depend on the portfolio company's success. Investments in equity securities involve a number of significant risks, including the risk of further dilution in the event the portfolio company issues additional securities. Investments in preferred securities involve special risks, such as the risk of deferred distributions, illiquidity and limited voting rights.

***Fluctuations in interest rates could affect MCG's income adversely.***

Because MCG sometimes borrow to make investments, its net income depends, in part, on the difference between the interest rate at which MCG borrows funds and the interest rate at which it then invests these funds. Because a significant portion of MCG's assets and liabilities may be priced using various short-term rate indices, including one-month to six-month LIBOR, commercial paper rates and the prime rate, the timing of changes in market interest rates or in the relationship between interest rate indices could affect the interest rates earned on MCG's interest-earning assets differently than the interest rates MCG pays on interest-bearing liabilities. As a result, significant changes in market interest rates could have a material adverse effect on MCG's net income.

A significant portion of MCG's variable rate loans have interest rate floors based on the LIBOR or prime rate. These floors minimize the company's exposure to significant decreases in interest rates. A significant increase in market interest rates could harm MCG's ability to attract new portfolio companies and originate new loans and investments. In addition, MCG's non-performing assets could increase and the value of its portfolio decreases because its floating-rate loan portfolio companies may be unable to meet higher payment obligations.

***Uncertainty relating to the LIBOR calculation process may adversely affect the value of MCG's portfolio of the LIBOR-indexed, floating-rate debt securities.***

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association, or BBA, in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the market for LIBOR-based securities, including MCG's portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of MCG's portfolio of LIBOR-indexed, floating-rate debt securities.

***MCG's business is subject to increasingly complex corporate governance, public disclosure and accounting requirements that could adversely affect its business and financial results.***

MCG is subject to changing rules and regulations of federal and state government as well as the stock exchange on which its common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the NASDAQ Stock Market have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in

response to laws enacted by Congress. On July 21, 2010, the Dodd-Frank Act was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act, and the SEC has adopted, and will continue to adopt, additional rules and regulations that may impact MCG. MCG's efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities.

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**Table of Contents*****Certain provisions of the Delaware General Corporation Law, MCG's restated certificate of incorporation and its amended and restated bylaws could deter takeover attempts and have an adverse impact on the price of MCG Common Stock.***

The Delaware General Corporation Law, MCG's restated certificate of incorporation and its amended and restated bylaws contain provisions that may discourage a third party from making a proposal to acquire the company. MCG has also adopted measures that may make it difficult for a third party to obtain control of the board or the company, including provisions in MCG's restated certificate of incorporation dividing the board of directors into three classes with the term of one class expiring at each annual meeting of stockholders. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of MCG Common Stock the opportunity to realize a premium over the market price of MCG Common Stock. See Description of MCG's Capital Stock.

***The failure in cyber security systems, as well as the occurrence of events unanticipated in MCG's disaster recovery systems and management continuity planning could impair its ability to conduct business effectively.***

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in MCG's disaster recovery systems, or a support failure from external providers, could have an adverse effect on MCG's ability to conduct business and on its results of operations and financial condition, particularly if those events affect its computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of MCG's managers were unavailable in the event of a disaster, its ability to effectively conduct its business could be severely compromised.

MCG depends heavily upon computer systems to perform necessary business functions. Despite its implementation of a variety of security measures, MCG's computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, MCG may experience threats to its data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, its computer systems and networks, or otherwise cause interruptions or malfunctions in MCG's operations, which could result in damage to its reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

***MCG's ability to utilize its net operating loss carryforwards and certain other tax attributes may be limited.***

For the tax years ended December 31, 2014, 2013, 2012 and 2011, MCG has total net capital losses of \$174.5 million which have no expiration and will be carried forward indefinitely to offset future net capital gains. Capital loss carryforwards from tax years 2009 of \$54.2 million and 2010 of \$5.2 million will expire December 31, 2017 and December 31, 2018, respectively, unless utilized to offset future net capital gains prior to those expiration dates to the extent permitted by federal tax law. Pursuant to Section 382 of the Code, if an ownership change (generally defined as a greater than 50% change by value in its stock ownership within a three-year period) occurs or has occurred, MCG's ability to use its pre-change net capital loss carryforwards and certain other pre-change tax attributes to offset its post-change income may be limited. Similar rules and limitations may apply for state tax purposes as well.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This joint proxy statement and prospectus contains statements that constitute forward-looking statements, which relate to PFLT, MCG or, following the Merger, Sub Two, regarding future events or the future performance or future financial condition of PFLT, MCG or, following the Merger, Sub Two. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about PFLT, MCG or, following the Merger, Sub Two, their industry and their respective beliefs and assumptions. The forward-looking statements contained in this joint proxy statement and prospectus involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including:

the ability of the parties to consummate the transaction described in this joint proxy statement and prospectus on the expected timeline (or at all);

the failure of PFLT or MCG stockholders to approve the proposed Merger;

the ability to realize the anticipated benefits of the transaction;

the effects of disruption on the companies' business from the proposed Merger;

the effect that the announcement or consummation of the Merger may have on the trading price of the common stock of PFLT or MCG;

the combined company's plans, expectations, objectives and intentions;

other factors described from time to time in the companies' filings with the SEC;

PFLT's future operating results;

PFLT's business prospects and the prospects of its prospective portfolio companies;

the dependence of PFLT's future success on the general economy and its impact on the industries in which PFLT invests;

the impact of a protracted decline in the liquidity of credit markets on PFLT's business;

the impact of investments that PFLT expects to make;

the impact of fluctuations in interest rates on PFLT's business and its portfolio companies;

PFLT's contractual arrangements and relationships with third parties;

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

the ability of PFLT's prospective portfolio companies to achieve their objectives;

PFLT's expected financings and investments;

the adequacy of PFLT's cash resources and working capital;

the timing of cash flows, if any, from the operations of PFLT's prospective portfolio companies;

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

the ability of the PFLT Investment Adviser to locate suitable investments for PFLT and to monitor and administer PFLT's investments;

the impact of future legislation and regulation on PFLT's business and its portfolio companies; and

the impact of European sovereign debt issues.

PFLT and MCG use words such as anticipates, believes, expects, intends, seeks, plans, estimates and similar expressions to identify forward-looking statements. You should not place undue influence

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on the forward looking statements, as PFLT and MCG's actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in Risk Factors and elsewhere in this joint proxy statement and prospectus.

Although PFLT and MCG 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 PFLT and MCG's 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 joint proxy statement and prospectus should not be regarded as a representation by PFLT or MCG that their plans and objectives will be achieved.

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

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 Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in connection with any offering of securities pursuant to this joint proxy statement and prospectus or in periodic reports PFLT and MCG file under the Exchange Act.

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**THE SPECIAL MEETING OF PFLT**

**Date, Time and Place of the PFLT Special Meeting**

The PFLT special meeting will take place on [ ], 2015 at [ ], Eastern Time, at the offices of Dechert LLP, 1095 Avenue of the Americas, New York, NY 10036.

**Purpose of the PFLT Special Meeting**

PFLT stockholders are being asked to consider and vote on the following matters at the PFLT special meeting:

a proposal to approve the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement; and

a proposal to approve the adjournment of the PFLT special meeting, if necessary or appropriate, to solicit additional proxies, if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.

See The Merger and Description of the Merger Agreement.

**PFLT's board of directors, including its independent directors, unanimously recommends that stockholders vote FOR approval of the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement and FOR approval of the proposal to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.**

**Record Date**

The record date for determination of stockholders entitled to vote at the PFLT special meeting is the close of business on [ ], 2015. As of [ ], 2015, there were 14,898,056 shares of PFLT Common Stock outstanding and entitled to vote and held by approximately [five] holders of record.

**Quorum**

A quorum is required to be present in order to conduct business at the PFLT special meeting. The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of PFLT Common Stock outstanding on the record date shall constitute a quorum for the purposes of the PFLT special meeting. Proxies properly executed and marked with a positive vote, a negative vote or an abstention will be considered present at the PFLT special meeting for purposes of determining whether a quorum is present for the transaction of all business at the PFLT special meeting. However, abstentions are not counted as votes cast on the matter.

**Vote Required**

Each share of PFLT Common Stock has one vote.

***Proposal to Issue Shares***



Assuming a quorum is present, the vote of at least a majority of the votes cast by holders of PFLT Common Stock at the special meeting is required to approve the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement. **Under the terms of the Merger Agreement, shares of PFLT Common Stock will be issued in the Merger at a price per share greater than or equal to then-current net asset value per share.** It is expected that brokers and other nominees will not have discretionary authority to vote on the proposal to issue shares. Broker shares for which written authority to vote has not been obtained will not be treated as votes cast on the matter and will have no effect on the vote on such proposal.

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### ***Adjournment Proposal***

The affirmative vote of at least a majority of the votes cast by holders of the shares of PFLT Common Stock at a meeting at which a quorum is present is required to approve the adjournment proposal. Stockholders present in person or represented by proxy at the PFLT special meeting who abstain will have no effect on the vote on the adjournment proposal. It is expected that brokers and other nominees will not have discretionary authority to vote on the proposal to adjourn the PFLT special meeting. Broker shares for which written authority to vote has not been obtained will not be treated as votes cast on the matter and will have no effect on the vote on such proposal.

### **Voting of Management**

At the close of business on May 6, 2015, PFLT's officers and directors owned and were entitled to vote 237,759 shares of PFLT Common Stock, representing 1.6% of PFLT's outstanding shares of PFLT Common Stock on that date. None of PFLT's officers or directors has entered into any voting agreements relating to the Merger.

### **Voting of Proxies**

PFLT encourages you to vote your shares, either by voting in person at the PFLT special meeting or by authorizing a proxy (i.e., authorizing someone to vote your shares). Shares represented by duly executed proxies will be voted in accordance with your instructions. If you execute a proxy without specifying your voting instructions, your shares will be voted in accordance with the recommendation of PFLT's board of directors. If any other business is brought before the PFLT special meeting, your shares will be voted by the appropriate proxy's discretion unless you specifically state otherwise on your proxy.

You will be eligible to authorize a proxy electronically via the Internet, by telephone or by mail.

PFLT stockholders may provide their voting instructions through the Internet, by telephone or by mail by following the instructions on the Notice of Internet Availability of Proxy Materials. These options require PFLT stockholders to input the Control Number, which is provided with the Notice of Internet Availability of Proxy Materials. If you vote using the Internet, after visiting [www.proxyvote.com](http://www.proxyvote.com) and inputting your Control Number, you will be prompted to provide your voting instructions. PFLT stockholders will have an opportunity to review their voting instructions and make any necessary changes before submitting them and terminating their Internet link. PFLT stockholders who vote via the Internet, in addition to confirming their voting instructions prior to submission, also will receive upon request an e-mail confirming their instructions.

If a PFLT stockholder wishes to participate in the PFLT special meeting, but does not wish to give a proxy by Internet, the PFLT stockholders may attend the PFLT special meeting in person or request and submit a proxy card by following the instructions on the Notice of Internet Availability of Proxy Materials.

### **Revocability of Proxies**

Any proxy authorized pursuant to this solicitation may be revoked by notice from the person giving the proxy at any time before it is exercised. A revocation may be effected by resubmitting voting instructions via the Internet voting site, by telephone, by obtaining and properly completing another proxy card that is dated later than the original proxy and returning it, by mail, in time to be received before the PFLT special meeting, by attending the PFLT special meeting and voting in person or by a notice, provided in writing and signed by the PFLT stockholder, delivered to the Secretary of PFLT on any business day before the date of the PFLT special meeting.

You may revoke a proxy at any time before it is exercised by notifying the Secretary of PFLT in writing, by submitting a properly executed, later-dated proxy or by voting in person at the PFLT special meeting. Any PFLT stockholder entitled to vote at the PFLT special meeting may attend the PFLT special meeting and vote in-person, whether or not he or she has previously voted his or her shares via proxy or wishes to change a previous vote.

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### **Solicitation of Proxies**

The accompanying proxy is solicited by and on behalf of PFLT's board of directors. The costs and expenses of any regulatory filing, including the registration statement (of which this joint proxy statement and prospectus forms a part) will be paid by PFLT and all fees paid to prepare and mail this joint proxy statement and prospectus and the registration statement (of which this joint proxy statement and prospectus forms a part), and to conduct the special meetings of PFLT and MCG will be borne equally by PFLT and MCG. Proxies may be solicited on PFLT's behalf by its directors, officers or employees in person or by telephone, electronic transmission and/or facsimile transmission.

PFLT has also retained AST Fund Solutions to assist in the solicitation of proxies from brokers, nominees, institutions and individuals. PFLT will pay AST Fund Solutions a fee of \$50,000, plus reasonable expenses, for these services. PFLT will mail a copy of this joint proxy statement and prospectus, including the Notice of Special Meeting and the proxy card included with these materials, to each holder of record of PFLT Common Stock on the record date.

### **Dissenters' Rights**

PFLT stockholders do not have the right to exercise dissenters' rights with respect to any matter to be voted upon at the PFLT special meeting.

### **Principal Accountants of PFLT**

PFLT expects that a representative of McGladrey LLP will be present at the PFLT special meeting, will have an opportunity to make a statement if he or she so chooses and will be available to answer questions.

### **Stockholders Who Hold Their Shares in a Brokerage Account**

If you are a beneficial owner whose shares are held of record by a broker, you must instruct the broker how to vote your shares. The proposal to approve the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement and the proposal to approve the adjournment of the PFLT special meeting are both non-routine matters for PFLT. As a result, if you hold shares of PFLT Common Stock in street name through a broker, your broker will not be permitted to exercise voting discretion with respect to your shares of PFLT Common Stock for such proposals. For this reason, it is imperative that stockholders of PFLT vote or provide instructions to their brokers as to how to vote with respect to the proposal to approve the issuance of the shares of PFLT Common Stock to be issued pursuant to the Merger Agreement and the proposal to approve the adjournment of the PFLT special meeting.

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**THE SPECIAL MEETING OF MCG**

**Date, Time and Place of the MCG Special Meeting**

The MCG special meeting will take place on [ ], 2015, at [ ] Eastern Time, at [ ].

**Purpose of the MCG Special Meeting**

MCG stockholders are being asked to consider and vote on the following matters at the MCG special meeting:

a proposal to approve the Merger and the Merger Agreement among PFLT, MCG, Sub One, Sub Two and the PFLT Investment Adviser as such agreement may be amended from time to time; and

a proposal to approve the adjournment of the MCG special meeting, if necessary or appropriate, to solicit additional proxies, if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal.

See The Merger and Description of the Merger Agreement.

**MCG's board of directors unanimously recommends that stockholders vote FOR approval of the Merger and the Merger Agreement and FOR approval of the proposal to adjourn the MCG special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG special meeting to approve the foregoing proposal.**

**Record Date**

Only holders of record of MCG Common Stock at the close of business on [ ], 2015, the record date, are entitled to notice of and to vote at the MCG special meeting. On the record date, approximately [ ] shares of MCG Common Stock were issued and outstanding and entitled to vote and held by approximately [ ] holders of record.

**Quorum and Adjournments**

The presence in person or representation by proxy of the holders of a majority of the shares of MCG Common Stock issued and outstanding and entitled to vote at the special meeting is necessary to establish a quorum for the transaction of business. If a quorum is not present, the special meeting will be adjourned until a quorum is obtained. Abstentions are included in the shares present at the special meeting for purposes of determining whether a quorum is present but are not counted for purposes of determining whether a proposal has been approved and thus, has the effect of a vote AGAINST the Merger and the Merger Agreement.

**Vote Required**

Holders of record of MCG Common Stock on the record date are entitled to one vote per share.

***Merger Proposal***

The affirmative vote of the holders of the majority of the outstanding MCG Common Stock entitled to vote on the matter is required to approve the Merger and the Merger Agreement. Stockholders who abstain, fail to return their proxies or do not otherwise vote effectively will be voting **AGAINST** the Merger and the Merger Agreement. Brokers who hold shares of stock in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with their procedures and this would also be counted as a vote **AGAINST** the Merger and the Merger Agreement.

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### ***Adjournment Proposal***

The affirmative vote of a majority of the votes cast on the matter by the holders of shares of MCG Common Stock present in person or represented by proxy at the MCG special meeting is required to approve the adjournment proposal. Stockholders present in person or represented by proxy at the MCG special meeting who abstain will have no effect on the vote on the adjournment proposal. It is expected that brokers and other nominees will not have discretionary authority to vote on the proposal to adjourn the MCG special meeting. However, broker shares for which written authority to vote has not been obtained will not be treated as votes cast on the matter and will have no effect on the vote on such proposal.

### **Voting of Management**

At the close of business on [ ], MCG's executive officers and directors owned and were entitled to vote shares of MCG Common Stock, representing % of the outstanding shares of MCG Common Stock on that date. None of MCG's executive officers or directors has entered into any voting agreement relating to the Merger; however, each of MCG's executive officers and directors has indicated that he intends to vote his shares of common stock in favor of the approval of the Merger and the Merger Agreement as long as the Merger Agreement is in effect.

### **Voting of Proxies**

All shares represented by properly executed proxies received in time for the MCG special meeting will be voted in the manner specified by the stockholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the approval of each matter to be voted on at MCG special meeting, including approval of the proposed Merger and the Merger Agreement. Stockholders may also vote by calling the proxy solicitor at (800) 322-2885.

Under Delaware law and MCG's amended and restated bylaws, only the matters stated in the Notice of Special Meeting will be presented for action at the special meeting or at any adjournment or postponement of the special meeting.

### **Revocability of Proxies**

Voting by telephone, over the Internet or execution of a proxy will not in any way affect a stockholder's right to attend the MCG special meeting and vote in person. A proxy may be revoked before it is used to cast a vote. To revoke a proxy, a stockholder must:

file with MCG's corporate secretary, at or before the taking of the vote, a written notice of revocation bearing a later date than the proxy;

duly execute a later dated proxy relating to the same shares and deliver it to MCG's corporate secretary before the taking of the vote; or

attend the MCG special meeting and vote in person.

Attendance at the MCG special meeting, if a stockholder does not vote at the MCG special meeting, will not be sufficient to revoke a proxy.

Any written notice of revocation or subsequent proxy should be sent to MCG at the following address: MCG Capital Corporation, 1001 19th Street North, 10th Floor, Arlington, Virginia 22209, Attention: Tod K. Reichert, Corporate Secretary. The shares represented by all properly executed proxies received in time for the MCG special meeting will be voted as specified in those proxies.



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### **Solicitation of Proxies**

The accompanying proxy is solicited by and on behalf of MCG's board of directors. The costs and expenses of any regulatory filing, including the registration statement (of which this joint proxy statement and prospectus forms a part) will be paid by PFLT and all fees paid to prepare and mail this joint proxy statement and prospectus and the registration statement (of which this joint proxy statement and prospectus forms a part), and to conduct the special meetings of PFLT and MCG will be borne equally by PFLT and MCG. Proxies may be solicited on MCG's behalf by its directors, officers or employees in person or by telephone, electronic transmission and/or facsimile transmission.

MCG has also retained MacKenzie Partners, Inc., or MacKenzie Partners, to assist in the solicitation of proxies from brokers, nominees, institutions and individuals. MCG will pay MacKenzie Partners a fee of \$25,000, plus reasonable expenses, for these services.

### **Dissenters' Rights**

Under Delaware law, MCG stockholders have the right to dissent from the Merger and have the appraised fair value of their shares of MCG Common Stock paid to them in cash. The appraised fair value may be more or less than the value of the shares of PFLT stock and cash paid in the Merger.

Persons having beneficial interests in MCG Common Stock held of record in the name of another person, such as a broker or bank, must act promptly to cause the record holder to take such action required under Delaware law to exercise your dissenter's rights.

In order to dissent, you must carefully follow the requirements of the Delaware General Corporation Law, including delivering to PFLT the required written demand for appraisal of your shares prior to the date of the MCG special meeting.

If you intend to exercise dissenters' rights, you should read the statutes carefully and consult with your own legal counsel. You should also remember that if you return a signed proxy card but fail to provide instructions as to how your shares of MCG Common Stock are to be voted, you will be considered to have voted in favor of the Merger Agreement and you will not be able to assert dissenters' rights. If the Merger Agreement is approved by the stockholders of MCG, holders of MCG Common Stock who deliver to PFLT a written demand for appraisal prior to the date of the MCG special meeting and, following notice of the Merger, properly file a petition with the Delaware Court of Chancery demanding determination of the value of their shares of MCG Common Stock will be entitled to receive the appraised fair value of their shares in cash under the Delaware General Corporation Law.

The text of the provisions of the DGCL pertaining to dissenters' rights is attached to this joint proxy statement and prospectus as *Annex D*.

### **Principal Accountants of MCG**

MCG expects that a representative of Ernst & Young LLP will be present at the MCG special meeting, will have an opportunity to make a statement if he or she so chooses and will be available to answer questions.

### **Stockholders Who Hold Their Shares in a Brokerage Account**

If you are a beneficial owner whose shares are held of record by a broker, you must instruct the broker how to vote your shares. With respect to the proposal to approve the Merger and the Merger Agreement, if you do not provide

your broker with instructions or attend the MCG special meeting, it will have the same effect as a vote AGAINST approval of the Merger and the Merger Agreement. For this reason, you should provide your broker

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with instructions on how to vote your shares or arrange to attend the MCG special meeting and vote your shares in person. Stockholders are urged to vote by telephone or the Internet if their broker has provided them with the opportunity to do so. See your voting instruction form for details. If your broker holds your shares and you attend the MCG special meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the MCG special meeting.

Stockholders will also be asked to consider a proposal to adjourn or postpone the MCG special meeting for the solicitation of additional votes, if necessary. Any such adjournment will only be permitted if approved by a majority of the votes cast on the matter by the holders of shares present in person or by proxy at the MCG special meeting, whether or not a quorum exists. Abstentions and broker non-votes will have no effect on the adjournment vote.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Merger Agreement provides that the holders of MCG Common Stock will be entitled to receive \$4.521 in PFLT Common Stock as well as \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock and payable by the PFLT Investment Adviser) for each share of MCG Common Stock held by them immediately prior to the effective time (including shares of restricted stock which will vest upon the effective time). The historical information that has been included in the unaudited pro forma condensed consolidated financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of both PFLT and MCG, which are included elsewhere in this document. See Index to Financial Statements.

The following unaudited pro forma condensed consolidated financial information and explanatory notes illustrate the effect of the Merger on PFLT's financial position and results of operations based upon the companies' respective historical financial positions and results of operations under the asset acquisition method of accounting with PFLT treated as the acquirer.

Generally, under asset acquisition accounting, acquiring assets in groups not only requires ascertaining the cost of the asset (or net assets), but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of the group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair values of net identifiable assets acquired other than non-qualifying assets (for example cash) and does not give rise to goodwill. PFLT believes that the acquisition of MCG should be accounted for as an asset acquisition based on the nature of its preacquisition operations, asset or capital allocation and other factors outlined in ASC 805 Business Combinations. The unaudited pro forma condensed consolidated financial information of PFLT and MCG reflects the Unaudited Pro Forma Condensed Consolidated Statements of Assets and Liabilities as of March 31, 2015 and the Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended March 31, 2015. The Unaudited Pro Forma Condensed Consolidated Statements of Assets and Liabilities as of each of March 31, 2015 assumes the Merger took place on March 31, 2015. The Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended March 31, 2015 assumes the Merger took place on October 1, 2014. The Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended September 30, 2014 assumes the Merger took place on October 1, 2013.

*The unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only and does not necessarily indicate the results of operations or the combined financial position that would have resulted had the Merger been completed at the beginning of the applicable period presented, nor the impact of expense efficiencies, asset dispositions, share repurchases and other factors. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed consolidated financial information, the allocation of the pro forma purchase price reflected in the unaudited pro forma condensed consolidated financial information involves estimates, is subject to adjustment and may vary significantly from the actual purchase price allocation that will be recorded upon completion of the Merger.*

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**PennantPark Floating Rate Capital Ltd. and Subsidiaries**  
**Pro Forma Condensed Consolidated Statements of Assets and Liabilities**

As of March 31, 2015

Unaudited

(in thousands, except per share data)

	Actual PFLT	As-Adjusted MCG *	Pro Forma Adjustments *	Pro Forma PFLT Combined
<b>Assets:</b>				
Investments at fair value	\$ 335,525	\$ 50,134	\$	\$ 385,659
Cash and cash equivalents	9,836	107,674(A)	(2,400)(B)	115,110
Other assets	9,013	14,771		23,784
<b>Total assets</b>	<b>\$ 354,374</b>	<b>\$ 172,579</b>	<b>\$ (2,400)</b>	<b>\$ 524,553</b>
<b>Liabilities:</b>				
Credit Facility	\$ 117,593	\$	\$	\$ 117,593
Payable for investments purchased	19,540			19,540
Other liabilities	4,270	4,780		9,050
<b>Total liabilities</b>	<b>141,403</b>	<b>4,780</b>		<b>146,183</b>
Net assets	212,971	167,799	(2,400)(B)	378,370
<b>Total liabilities and net assets</b>	<b>\$ 354,374</b>	<b>\$ 172,579</b>	<b>\$ (2,400)</b>	<b>\$ 524,553</b>
<b>Total shares outstanding</b>	<b>14,898</b>	<b>36,934</b>	<b>11,679(F)</b>	<b>26,577</b>
Net asset value per share	\$ 14.30	4.54	(0.21)	\$ 14.24

\* See Note 3 of the accompanying notes to pro forma condensed consolidated financial statements on page 86 for information on the pro forma adjustments.

SEE NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**PennantPark Floating Rate Capital Ltd. and Subsidiaries**  
**Pro Forma Condensed Consolidated Statement of Operations**  
**For the Six Months Ended March 31, 2015**  
**Unaudited**  
**(in thousands, except per share data)**

	PFLT	MCG	Pro Forma Adjustments *	Pro Forma PFLT Combined
<b>Performance Data:</b>				
Interest	\$ 14,516	\$ 3,945	\$	\$ 18,461
Other income	944	287		1,231
Total investment income	15,460	4,232		19,692
Base management fees	1,734		392(C)	2,126
Performance-based incentive fee	1,032		(E)	1,032
Interest and expenses on the Credit Facility	1,662			1,662
Salaries, benefits and stock awards		2,193	(2,193)(D)	
Other expenses	1,107	3,034		4,141
Total expenses	5,535	5,227	(1,801)	8,961
Net investment income	9,925	(995)	1,801	10,731
Net realized and unrealized (losses) gains from investments and Credit Facility	(3,362)	4,370		1,008
Net increase in net assets resulting from operations	\$ 6,563	\$ 3,375	\$ 1,801	\$ 11,739
Net increase in net assets resulting from operations per common share	\$ 0.44	\$ 0.08	\$ 0.15	\$ 0.44
Net investment income per common share	\$ 0.67	\$ (0.02)	\$ 0.15	\$ 0.40

\* See Note 3 of the accompanying notes to pro forma condensed consolidated financial statements on page 86 for information on the pro forma adjustments.

SEE NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents****PennantPark Floating Rate Capital Ltd. and Subsidiaries****Pro Forma Condensed Consolidated Statement of Operations****For the Year Ended September 30, 2014****Unaudited****(in thousands, except per share data)**

	<b>PFLT</b>	<b>MCG</b>	<b>Pro Forma Adjustments *</b>	<b>Pro Forma PFLT Combined</b>
<b>Performance Data:</b>				
Interest	\$ 29,256	\$ 34,179	\$	\$ 63,435
Other income	1,101	1,535		2,636
Total investment income	30,357	35,714		66,071
Base management fee	3,703		2,891(C)	6,594
Performance-based incentive fee	3,464		154(E)	3,618
Interest and expenses on the Credit Facility	3,471	9,423		12,894
Salaries, benefits and stock awards		6,861	(6,861)(D)	
Other expenses	3,083	9,066		12,149
Total expenses	13,721	25,350	(3,816)	35,255
Net investment income	16,636	10,364	3,816	30,816
Net realized gains (losses)	2,873	(65,553)		(62,680)
Net change in unrealized appreciation (depreciation) on investments and Credit Facility	1,005	13,831		14,836
Net realized and unrealized gains (losses) from investments and Credit Facility	3,878	(51,722)		(47,844)
Net increase (decrease) in net assets resulting from operations	\$ 20,514	\$ (41,358)	\$ 3,816	\$ (17,028)
Net increase (decrease) in net assets resulting from operations per common share	\$ 1.38	\$ (0.66)**	\$ 0.33	\$ (0.64)
Net investment income per common share	\$ 1.12	\$ 0.16	\$ 0.33	\$ 1.16



- \* See Note 3 of the accompanying notes to pro forma condensed consolidated financial statements on page 86 for information on the pro forma adjustments.
- \*\* For the year ended September 30, 2014, MCG excluded 712 weighted-average shares of restricted stock from the calculation of diluted loss per share because the inclusion of these shares would have had an anti-dilutive impact on the calculation of loss per share.

SEE NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY****PRO FORMA CONSOLIDATED SCHEDULE OF INVESTMENTS****MARCH 31, 2015****(Unaudited)**

Name	Maturity	Industry	Current Coupon	Basis Point Spread		MCG Cost	MCG Fair Value <sup>(2)</sup>	PFLT Cost	PFLT Fair Value <sup>(2)</sup>	Pro Forma Pr Cost Fair
				Above Index <sup>(1)</sup>						
<b>Investments in Non-Controlled, Non-Affiliated Portfolio</b>										
<b>Investments 99.2%<sup>(3), (4)</sup></b>										
<b>Secured</b>										
<b>9.9%</b>										
Investment Company, Inc.	04/02/2018	Retail	11.94%	L+1,175 <sup>(9)</sup>	\$	\$	\$ 8,796	\$ 9,000	\$ 8,796	\$
Investment Company, Inc. <sup>(10)</sup>	04/02/2018	Retail								
Investment Company, Inc. (10)	04/02/2018	Retail								
Investment Company, Inc.	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575			7,273	7,279	7,273	
Investment Company, Inc.	07/16/2018	High Tech Industries	6.25%	L+500			3,885	3,896	3,885	
Investment Company, LLC	12/21/2020	Hotel, Gaming and Leisure	9.25%	L+825			1,346	1,374	1,346	
Investment Company, Inc.	10/12/2020	Automotive	6.00%	L+500			3,953	3,950	3,953	
Investment Company, Inc.	07/31/2019	Media: Broadcasting and Subscription	6.00%	L+500			3,941	3,960	3,941	
Investment Company, Inc.	10/06/2016	Consumer Services	7.00%	L+550			2,890	2,902	2,890	
Investment Company, LLC	11/15/2018	Energy: Oil and Gas	7.50%	L+650			6,970	6,773	6,970	
Investment Company, Inc.	06/29/2020	Automotive	6.50%	L+550			4,871	4,925	4,871	
Investment Company, Corp.	09/17/2021	Retail	7.25%	L+625			7,847	7,900	7,847	
Investment Company, Inc.	09/30/2019	Business Services	9.50%	L+750	14,182	14,182				14,182
Investment Company, Inc.	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700			4,962	4,800	4,962	
Investment Company, Inc.	12/24/2019	Retail	9.00%	L+800			4,400	4,477	4,400	
Investment Company, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.25%	L+600			4,908	4,950	4,908	

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Circle, LLC	06/25/2020	Media: Advertising, Printing and Publishing	5.50%	L+450			5,233	5,240	5,233
nc.	12/21/2020	High Tech Industries	7.50%	L+650			4,873	4,869	4,873
Health Services, Inc.	02/07/2022	Healthcare and Pharmaceuticals	6.50%	L+550			1,981	2,004	1,981
Business, Inc.	03/19/2018	Business Services	7.25%	L+575			3,205	3,237	3,205
Global, Inc.	12/09/2020	Business Services	5.50%	L+450			4,953	4,925	4,953
um, Inc. <sup>(8)</sup>	05/17/2018	Media: Broadcasting and Subscription	6.75%	P+350			910	631	910
hTechnology,	05/02/2018	Healthcare and Pharmaceuticals	6.00%	L+475			2,850	2,852	2,850
ogic, Inc.	05/31/2019	High Tech Industries	6.25%	L+525			3,919	3,920	3,919
levision <sup>(8)</sup>	12/31/2016	Media: Broadcasting and Subscription	4.30%	L+400 <sup>(9)</sup>	7,877	9,226			7,877
Broadcasting	05/23/2018	Media: Broadcasting and Subscription	6.75%	L+550			785	783	785
y Health,	11/04/2020	High Tech Industries	6.00%	L+500			6,856	6,912	6,856
ystems, Inc.	06/28/2019	High Tech Industries	5.50%	L+450			4,902	4,876	4,902
r Sleep, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800			1,183	1,200	1,183
Corporation	12/13/2019	High Tech Industries	6.00%	L+475			2,834	2,814	2,834
Defense Technologies, Inc.	08/05/2019	Aerospace and Defense	6.50%	L+550			6,765	6,825	6,765
ergy, Inc.	04/30/2020	Consumer Goods: Durable	6.50%	L+550			4,950	4,950	4,950
U.S.	11/04/2020	Construction and Building	7.25%	L+625			6,867	7,000	6,867
on <sup>(11)</sup>									
dings, Inc. <sup>(5)</sup>	03/30/2017	Automotive	11.50%				1,982	2,100	1,982
er Limited, Inc. <sup>(6), (11)</sup>	05/01/2019	Business Services	7.25%	L+600			11,584	10,530	11,584
Web, LLC, an A	03/28/2019	Media: Advertising, Printing and Publishing	5.50%	L+450			5,345	5,412	5,345
Web, LLC, an B	03/28/2019	Media: Advertising, Printing and Publishing	12.00%	L+1,100			4,443	4,500	4,443
Hewitt Tax, Inc.	10/16/2017	Consumer Services	10.00%	L+850			4,624	4,659	4,624
Solutions, L.P. <sup>(8)</sup>	08/19/2019	Chemicals, Plastics and Rubber	11.00%	L+1,000			5,946	5,807	5,946
Solutions, Inc.	11/13/2020	High Tech Industries	5.50%	L+450			1,968	1,966	1,968
Holdings	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525			5,831	5,821	5,831
Schools, LLC	06/25/2019	Consumer Services	7.00%	L+575			2,474	2,480	2,474
dent, Inc.	07/31/2019	Healthcare and Pharmaceuticals	6.50%	L+525			8,902	8,721	8,902

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Logic Holdings	12/31/2017	Healthcare and Pharmaceuticals	8.50%	L+650	17,500	17,500		17,500	
cept Finance	06/28/2019	Consumer Goods: Non-Durable	6.00%	L+475			7,621	7,620	7,621
Dental Inc.	11/01/2018	Consumer Services	6.00%	L+500			8,161	7,518	8,161
Home Brands LLC	12/17/2018	Consumer Goods: Durable	7.75%	L+650			4,899	4,913	4,899
Now Group,	03/18/2021	High Tech Industries	5.50%	L+450			6,965	7,000	6,965
aw US Corp.	06/18/2019	Consumer Goods: Durable	9.00%	L+750			3,598	3,587	3,598

SEE NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY**  
**PRO FORMA CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2015**

**(Unaudited)**

Name	Maturity	Industry	Current Coupon	Basis Point Spread		MCG Cost	MCG Fair Value <sup>(2)</sup>	PFLT Cost	PFLT Fair Value <sup>(2)</sup>	Pro Forma Cost	Pro Forma Fair Value
				Above Index <sup>(1)</sup>							
Law US Corp.	06/18/2019	Consumer Goods: Durable	9.00%	L+750		\$	\$	\$ 47	\$ 47	\$ 47	\$ 47
Law US Corp. (10)	06/18/2019	Consumer Goods: Durable									
ers, LLC	08/14/2019	Hotel, Gaming and Leisure	8.25%	L+725				11,848	11,941	11,848	
Defense Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750				6,361	5,721	6,361	
Services	08/09/2021	Consumer Services	5.75%	L+475				1,189	1,192	1,189	
Services	08/22/2018	Healthcare and Pharmaceuticals	7.25%	L+575				6,434	6,392	6,434	
on (US),											
Sampling al, LLC	12/16/2020	Business Services	6.00%	L+500				4,952	4,963	4,952	
ce Holding,	10/18/2019	High Tech Industries	5.25%	L+425				5,902	5,881	5,902	
corporation	07/09/2021	Construction and Building	5.75%	L+475				4,929	4,577	4,929	
Inc.	12/27/2017	Healthcare and Pharmaceuticals	7.00%	L+575				4,783	4,795	4,783	
oes, LLC	11/02/2020	Consumer Goods: Non-Durable	6.50%	L+550				1,810	1,845	1,810	
lobal Inc. <sup>(8)</sup>	01/14/2019	Telecommunications	9.50%	L+850				473	473	473	
			(PIK 1.00%)								
	01/14/2019	Telecommunications	8.50%	L+750				542	570	542	

Global Inc. (8)										
Global Inc. (8),	01/14/2019	Telecommunications								
Shane,	02/07/2022	Automotive	6.75%	L+575		5,809	5,969	5,809		
Biologic on (8)	12/22/2016	Business Services	7.26%	L+550		2,902	2,343	2,902		
ands,	08/30/2018	Consumer Goods: Non-Durable	7.55%	L+625		2,897	2,796	2,897		
aims LLC	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800		3,557	3,591	3,557		
	06/04/2018	Media: Advertising, Printing and Publishing	8.00%	L+675		2,551	2,629	2,551		
<b>First Lien Secured Debt</b>						39,559	40,908	280,437	277,583	319,996
<b>Second Lien Secured Debt</b>										
<b>3.9%</b>										
Company	09/01/2017	Metals and Mining	11.50%			1,000	923	1,000		
Casino LLC (8)	10/02/2019	Hotel, Gaming and Leisure	10.00%	L+875		1,677	1,382	1,677		
Beverage LLC (5), (8)	08/01/2018	Beverage, Food and Tobacco	10.63%			3,500	3,430	3,500		
erger	09/30/2020	Wholesale	11.00%	L+1,000		10,386	11,000	10,386		
etics Inc. (8)	07/31/2019	Consumer Goods: Durable	11.00%	L+1,000		3,932	3,988	3,932		
Line,	12/20/2016	Consumer Services	10.50%	L+875		9,176	9,181	9,176		
on, LLC	07/07/2021	Business Services	11.75%	L+1,050		10,897	11,000	10,897		
edia, Inc.	10/02/2020	Media: Diversified and Production	9.00%	L+775		5,533	5,614	5,533		
Oilsands (8), (11)	08/01/2017	Energy: Oil and Gas	10.00%			2,670	2,531	2,670		
<b>Third Lien Secured Debt</b>						48,771	49,049	48,771		
<b>Unsecured Debt/Corporate Notes 3.9%<sup>(8)</sup></b>										
Group Inc.	09/14/2018	Consumer Goods: Durable	14.50%			3,989	2,901	3,989		
	08/15/2018		(PIK 14.50%) 13.50%			1,734	1,057	1,734		

		Consumer Goods:				
		Durable				
ts LLC						
onnet, Inc.	10/26/2018	High Tech Industries	13.00%		1,979	2,014
			(PIK 1.75%)			1,979
r Mental	10/12/2017	Healthcare and	14.50%	8,991	8,991	8,991
nter, Inc.		Pharmaceuticals	(PIK 2.50%)			
lobal	07/15/2019	Telecommunications	15.00%		122	122
nc.			(PIK 15.00%)			122
<b>Coordinated</b>						
<b>Corporate Notes</b>				8,991	8,991	7,824
					6,094	16,815

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY**  
**PRO FORMA CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2015**

**(Unaudited)**

Issuer Name	Maturity	Industry	Basis Point Spread		MCG Cost	MCG Fair Value (2)	PFLT Cost	PFLT Fair Value (2)	Pro Forma Cost	Pro Forma Fair Value
			Current	Above Coupon Index (1)						
<b>Preferred Equity 0.3%<sup>(7), (8)</sup></b>										
. Cosmetics Inc.										
A. Cosmetics Buildings, Inc.)		Consumer Goods: Durable	8.00%	\$	\$	\$	\$ 400	\$ 439	\$ 400	\$ 439
TEK Global Services, Inc.		Telecommunications	13.50%				670	791	670	791
							1,070	1,230	1,070	1,230
<b>Common Equity/Warrants 0.5%<sup>(7), (8)</sup></b>										
Z Wireless Buildings, Inc.		Retail					119	575	119	575
Union Group Buildings, Inc., Series A (Warrants)	12/12/2023	Consumer Goods: Durable					1,187	541	1,187	541
Union Group Buildings, Inc., Series B (Warrants)	12/12/2023	Consumer Goods: Durable						23		23
. Cosmetics Inc.		Consumer Goods: Durable						17		17
A. Cosmetics Buildings, Inc.)	11/27/2023						28	145	28	145



Patriot Financial, Inc. (Warrants)		Banking, Finance, Insurance and Real Estate					
Tek Global Services, Inc.		Telecommunications					
Westcom Rent Holdings, Inc.		Media: Advertising, Printing and Publishing		57	268	57	268
<b>Total Common Equity/Warrants</b>				<b>1,391</b>	<b>1,569</b>	<b>1,391</b>	<b>1,569</b>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>				<b>48,550</b>	<b>49,899</b>	<b>339,493</b>	<b>335,525</b>
<b>Total Investments in Controlled, Affiliated Portfolio Companies <sup>(8)</sup></b>							
<b>Common Equity/Warrants 0.0%<sup>(7)(8)</sup></b>							
Radview Networks Holdings, Inc.		Telecommunications		159,579	235	159,579	235
Radview Networks Holdings, Inc., Series A (Warrants)	11/13/2020	Telecommunications					
Radview Networks Holdings, Inc., Series B (Warrants)	11/13/2020	Telecommunications					
<b>Total Investments in Controlled, Affiliated Portfolio Companies</b>				<b>159,579</b>	<b>235</b>	<b>159,579</b>	<b>235</b>
<b>Total Investments</b>				<b>208,129</b>	<b>50,134</b>	<b>339,493</b>	<b>335,525</b>
<b>Cash and Cash Equivalents 32.3%</b>							
BlackRock Liquidity Funds, Temp Cash and Temp Fund, Institutional Shares						9,836	9,836
Cash and Cash Equivalents <sup>(12)</sup>				107,674	107,674		107,674
<b>Total Cash and Cash Equivalents</b>				<b>107,674</b>	<b>107,674</b>	<b>9,836</b>	<b>9,836</b>
<b>Total Investments and Cash Equivalents 131.5%</b>				<b>\$ 315,803</b>	<b>\$ 157,808</b>	<b>\$ 349,329</b>	<b>\$ 345,361</b>
<b>Assets in Excess of Other Liabilities (Liabilities in Excess of Other Assets) (31.5)%</b>					9,991	(132,390)	(122,399)
<b>Total Assets 100.0%</b>					<b>\$ 167,799</b>	<b>\$ 212,971</b>	<b>\$ 380,771</b>

to Form  
Adjustments

Transaction costs

(2,40

als	\$ 315,803	\$ 167,799	\$ 349,329	\$ 212,971	\$ 665,132	\$ 378,37
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\* See Note 3 of the accompanying notes to pro forma condensed consolidated financial statements on page 86 for more information on the pro forma adjustments.

SEE NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARY**  
**PRO FORMA CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)**

**MARCH 31, 2015**

**(Unaudited)**

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or L, or Prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (2) Valued based on PFLT's accounting policy (see Note 1).
- (3) The provisions of the 1940 Act classify investments based on the level of control that PFLT maintains in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-controlled when PFLT owns less than 25% of a portfolio company's voting securities and controlled when PFLT owns 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 PFLT maintains in a particular portfolio company. As defined in the 1940 Act, a company is deemed as non-affiliated when PFLT owns less than 5% of a portfolio company's voting securities and affiliated when PFLT owns 5% or more of a portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-U.S. company or principal place of business outside the United States.
- (7) Non-income producing securities.
- (8) The securities are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
- (9) Coupon is not subject to a LIBOR or Prime rate floor.
- (10) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (11) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, PFLT may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of PFLT's total assets.
- (12) Cash and cash equivalents have been adjusted for transaction costs in connection with the Merger for MCG.
- (13) Upon consummation of the Merger and in accordance with ASC-50, Business Combinations Related Issues, PFLT will account for the Merger under asset acquisition accounting, which when acquiring assets in groups not only requires ascertaining the cost of the asset (or net assets), but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of the group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair values of net identifiable assets acquired other than non-qualifying assets (for example cash) and does not give rise to goodwill. As a result, such adjustment has been reflected in a single line item entitled Pro forma Adjustment. However, a final determination of the fair value of MCG's investments will be made after the Merger is completed and, as a result, the actual amount of this adjustment may vary from the preliminary amount set forth herein. Thus, the information set forth in the columns reflect historical amounts, and have not been individually adjusted

to reflect the any adjustment unless otherwise noted.

SEE NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**PennantPark Floating Rate Capital Ltd. and Subsidiaries**

**Notes to Pro Forma Condensed Consolidated Financial Statements**

**Unaudited**

**(In thousands, except per share data unless otherwise stated)**

**1. BASIS OF PRO FORMA PRESENTATION**

The unaudited pro forma condensed consolidated financial information related to the Merger is included as of and for the six months ended March 31, 2015 and for the year ended September 30, 2014. On April 28, 2015, PFLT and MCG entered into a Merger Agreement. For the purposes of the Pro Forma Condensed Consolidated Financial Statements, PFLT's purchase price is currently estimated at approximately \$167,000, or \$4.521 per MCG share, which is based upon a price of \$14.30 per share (last closing price as of May 6, 2015) of PFLT Common Stock. The pro forma adjustments included herein reflect the conversion of MCG Common Stock into PFLT Common Stock using an exchange ratio of 0.3162 of a share of PFLT Common Stock for each of 36,934 estimated shares of MCG Common Stock outstanding as of March 31, 2015 after all MCG stock awards are exercised.

The Merger will be accounted for as an asset acquisition of MCG by PFLT in accordance with the asset acquisition method of accounting as detailed in ASC 805-50, *Business Combinations - Related Issues*. Generally, under asset acquisition accounting, acquiring assets in groups not only requires ascertaining the cost of the asset (or net assets), but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of the group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair values of net identifiable assets acquired other than non-qualifying assets (for example cash) and does not give rise to goodwill. Due to the inherent uncertainty of determining the fair value of investments that do not have readily available market value, the NAV of MCG at closing may be different than the preliminary amounts indicated herein and those differences may be material.

As permitted under Regulation S-X and as explained by ASC 946-810-45, PFLT 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 PFLT. Accordingly, PFLT has consolidated the results of all subsidiaries in its Consolidated Financial Statements and the Unaudited Pro Forma Condensed Consolidated Financial Statements and have eliminated all intercompany balances and transactions.

In determining the fair value of the assets to be acquired, PFLT determines fair value, as defined under ASC 820, *Fair Value Measurement*, as the price that PFLT 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 PFLT. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to PFLT on the reporting period date.



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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 PFLT 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 PFLT's 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 PFLT's investments and the 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 PFLT's valuation and those differences may be material. A review of fair value hierarchy classifications is conducted on a quarterly basis. The inputs into the determination of fair value may require significant management judgment or estimation.

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

The following table presents fair value measurements of investments for the pro forma combined company as of March 31, 2015:

	<b>Fair Value Measurements Using</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments	\$ 385,659	\$	\$ 1,438	\$ 384,221
Credit Facility	\$ 117,593	\$	\$	\$ 117,593

There are no material changes in investments that use Level 3 inputs between the actual March 31, 2015 amounts and those presented for the pro forma combined company as of March 31, 2015.

PFLT may become party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with its portfolio companies or the Merger Agreement. Furthermore, third parties may try to seek to impose liability on PFLT in connection with the activities of its portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, PFLT does not expect that these proceedings will have a material effect on its financial condition or results of operations. Preacquisition contingent assets and liabilities are accounted for in accordance with ASC 450. Accordingly, as of March 31, 2015, PFLT has not accrued any contingent assets or liabilities in the pro forma condensed consolidated financial information as they are not probable or estimable.

The unaudited pro forma condensed consolidated financial information includes preliminary estimated purchase price allocation adjustments to record the assets and liabilities of MCG at their respective relative fair values and represents PFLT's management's estimates based on available information. The pro forma adjustments included herein may be revised as additional information becomes available and as additional analyses are performed. The final allocation of the purchase price will be determined after the Merger is completed and after completion of a final analysis to determine the relative fair values of MCG's assets and liabilities. Accordingly, the final accounting adjustments and transaction costs may be materially different from



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the pro forma adjustments presented in this document. Increases or decreases in the estimated fair values of the net assets, commitments, and other items of MCG as compared to the information shown in this document may change the amount of the purchase price allocated to the net assets acquired in accordance with ASC 805-50 *Business Combinations Related Issues*.

PFLT has elected to be taxed, and intends to qualify annually to maintain its election to be taxed, as a RIC under Subchapter M of the Code. See Certain Material U.S. Federal Income Tax Consequences of the Merger for more information.

The unaudited pro forma condensed consolidated financial information presented in this document is for illustrative purposes only and does not necessarily indicate the results of operations or the combined financial position that would have resulted had the Merger been completed at the beginning of the applicable period presented, nor the impact of expense efficiencies, asset dispositions, share repurchases and other factors. The unaudited pro forma condensed consolidated financial information is not indicative of the results of operations in future periods or the future financial position of the combined company.

**2. PRELIMINARY ASSET ACQUISITION ACCOUNTING ALLOCATIONS**

The unaudited pro forma condensed consolidated financial information for the Merger includes the unaudited pro forma condensed consolidated statement of assets and liabilities as of March 31, 2015 assuming the Merger was completed on March 31, 2015. The unaudited pro forma condensed consolidated statement of operations for the six months ended March 31, 2015 and for the year ended September 30, 2014 were prepared assuming the Merger was completed on October 1, 2014 and 2013, respectively.

The unaudited pro forma condensed consolidated financial information reflects the issuance of approximately 11,679 shares of PFLT Common Stock in connection with the Merger.

The Merger will be accounted for using the asset acquisition method of accounting; accordingly, PFLT's cost to acquire MCG will be determined at closing. Accordingly, the pro forma purchase price has been allocated to the as-adjusted relative fair value of assets acquired and the liabilities assumed based on PFLT's currently estimated relative fair values as summarized in the following table:

Common stock issued by PFLT	\$ 167,010
Assets acquired:	
Investments, at fair value	\$ 50,134
Cash and cash equivalents	107,674
Other assets	14,771
Total assets acquired	172,579
Other liabilities assumed	(4,780)
Net assets acquired	167,799
Excess of fair value over purchase price	(789)

Total purchase price	\$ 167,010
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The preliminary pro forma asset acquisition method of accounting is shown in the unaudited pro forma condensed consolidated financial information is as follows:

- A. To reflect MCG's March 31, 2015 balance sheet, updated for material estimated changes subsequent to March 31, 2015:

	<b>Actual MCG March 31, 2015</b>	<b>Pro Forma Adjustments <sup>(1)</sup></b>	<b>As-Adjusted MCG March 31, 2015 <sup>(2)</sup></b>
Investments, at fair value	\$ 50,134	\$	\$ 50,134
Cash and cash equivalents	116,013	(8,339)	107,674
Other assets	14,771		14,771
<b>Total assets</b>	<b>\$ 180,918</b>	<b>\$ (8,339)</b>	<b>\$ 172,579</b>
Debt	\$	\$	
Other liabilities	4,780		4,780
<b>Total liabilities</b>	<b>4,780</b>		<b>4,780</b>
Net assets	176,138	(8,339)	167,799
<b>Total liabilities and net assets</b>	<b>\$ 180,918</b>	<b>\$ (8,339)</b>	<b>\$ 172,579</b>
Shares outstanding	37,074	(140)	36,934

- (1) Primarily the result of acquisition costs incurred by MCG of \$8,339 for legal, advisory, severance and other transaction related costs.
- (2) To reflect the acquisition of MCG by the issuance of approximately 11,679 shares of PFLT Common Stock. Below reflects the allocation of the purchase price on the basis of MCG's current estimate of the relative fair value of assets to be acquired and liabilities to be assumed:

Components of purchase price:

	<b>As-Adjusted MCG March 31, 2015</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma</b>
Common stock issued	\$ 167,010	\$	\$ 167,010
Assets acquired:			
Investments <sup>(a)</sup>	\$ 50,134	\$	\$ 50,134

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Cash and cash equivalents	107,674	107,674
Other assets	14,771	14,771
Total assets acquired	172,579	172,579
Other liabilities assumed	(4,780)	(4,780)
Net assets acquired	167,799	167,799
Excess of fair value over purchase price	(789)	(789)
Total Purchase Price	\$ 167,010	\$ 167,010

- (a) Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process. See Management's Discussion and Analysis of Financial Condition and Results of MCG Results of Operations. See Management's Discussion and Analysis of Financial Condition and Results of PFLT Results of Operations.

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B. The cash and cash equivalents of the pro forma combined company were decreased primarily for acquisition costs incurred by PFLT of \$2,400 for legal, advisory and other transaction related costs.

C. The management fees were computed based on 1.00% of average adjusted gross assets, other than cash and cash equivalents, but including assets purchased with borrowed funds, also known as leverage, consistent with PFLT's Investment Management Agreement.

D. Adjustments to other expenses were made to reflect compensation costs for MCG's employees that would have been covered by the base management fees paid to the PFLT Investment Adviser and therefore not incurred by PFLT. Additionally, all stock award costs were excluded as such costs would not exist as there is no stock award plan maintained by PFLT. Any actual costs incurred related to the Merger, primarily various transaction costs, also were also excluded.

E. The performance-based incentive fees were computed based on PFLT's Investment Management Agreement. PFLT has assumed no incentive fees would be payable on capital gains.

F. Total shares outstanding as of March 31, 2015 have been adjusted to reflect the following:

PFLT shares outstanding as of March 31, 2015	14,898
Estimated shares issued in connection with the Merger reflected as outstanding for the periods presented (issued at PFLT common stock price on May 6, 2015 of \$14.30 per share)	11,679
PFLT adjusted shares outstanding as of March 31, 2015	26,577

Weighted average shares for the six months ended March 31, 2015 and the year ended September 30, 2014 have been adjusted to reflect the following:

	<b>For the Six Months Ended March 31, 2015</b>	<b>For the Year Ended September 30, 2014</b>
PFLT weighted average shares outstanding	14,898	14,898
Estimated shares issued in connection with the Merger reflected as outstanding for the periods presented (issued at PFLT common stock price on May 6, 2015 of \$14.30 per share)	11,679	11,679
PFLT adjusted weighted average shares outstanding	26,577	26,577

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The following table sets forth (1) PFLT's and MCG's actual capitalization at March 31, 2015 and (2) PFLT's capitalization as-adjusted to reflect the effects of the Merger. You should read this table together with PFLT's and MCG's condensed consolidated statements of assets and liabilities and the pro forma financial information included elsewhere in this joint proxy statement and prospectus.

	As of March 31, 2015		
	Actual PFLT	Actual MCG	As-Adjusted for the Merger
<b>(unaudited, amounts in thousands except per share data)</b>			
Cash and cash equivalents	\$ 9,836	\$ 116,013	\$ 115,110
Total assets	354,374	180,918	524,553
Credit Facility (cost \$117,300)	117,593		117,593
<b>Net Assets<sup>(1)</sup></b>			
PFLT Common Stock, par value \$0.001 per share, 100,000 shares of common stock authorized, 14,898 shares of common stock issued and outstanding, actual and 26,577 shares of common stock issued and outstanding, as-adjusted; MCG Common stock, \$0.01 par value per share, 200,000 common shares authorized, 37,074 common shares issued and outstanding	15	371	27
Paid-in capital in excess of par value	207,226	858,421	373,824
Undistributed net investment income (Distributions in excess of net investment income)	6,683	(524,658)	6,683
Accumulated net realized gain on investments	3,308		3,308
Net unrealized depreciation on investments	(3,968)	(157,996)	(5,179)
Net unrealized appreciation on Credit Facility	(293)		(293)
<b>Total net assets</b>	<b>212,971</b>	<b>176,138</b>	<b>378,370</b>
<b>Total capitalization</b>	<b>\$ 330,564</b>	<b>\$ 176,138</b>	<b>\$ 495,963</b>

(1) Does not include any shares issued pursuant to PFLT's dividend reinvestment plan.

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**THE MERGER**

*The discussion in this joint proxy statement and prospectus, which includes the material terms of the Merger and the principal terms of the Merger Agreement, is subject to, and is qualified in its entirety by reference to, the Merger Agreement, a copy of which is attached as Annex A to this joint proxy statement and prospectus and is incorporated by reference in this joint proxy statement and prospectus.*

**General Description of the Merger**

Pursuant to the Merger Agreement, at the effective time, Sub One will merge with and into MCG, with MCG continuing as the surviving corporation followed immediately and as a single integrated transaction by the Second Merger of MCG with and into Sub Two with Sub Two continuing as the surviving entity and a wholly owned subsidiary of PFLT.

In the Initial Merger, each outstanding share of MCG Common Stock outstanding immediately prior to the effective time (including shares of restricted stock which will vest upon the effective time) will be converted into the right to receive \$4.521 in PFLT Common Stock as well as \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock).

In the Second Merger, all the assets and liabilities of MCG immediately before the Merger will become the assets and liabilities of Sub Two, which will continue to be a wholly owned subsidiary of PFLT.

Based on the number of shares of PFLT Common Stock issued and outstanding at the closing of the Merger, it is expected PFLT stockholders will own approximately 56% of PFLT Common Stock and MCG stockholders will own approximately 44% of PFLT Common Stock.

**Background of the Merger**

MCG's board of directors and executive management regularly review and assess MCG's business strategies and objectives, including strategic opportunities and challenges. These reviews and assessments included an evaluation of MCG's portfolio of investments, as well as industry trends, general market conditions and developments in mergers and acquisitions.

In 2014 and 2015, the MCG board of directors determined that it was in the interest of stockholders to streamline its operations and reduce its portfolio investments, including conducting several repurchases of outstanding MCG Common Stock, eliminating its outstanding borrowings and credit facilities and monetizing a large portion of its portfolio.

On October 29, 2014, MCG announced its intent to repurchase up to \$75 million of MCG Common Stock through a modified "Dutch Auction" tender offer, at prices no less than \$3.25 per share and no more than \$3.75 per share. The maximum number of shares proposed to be purchased in the tender offer represented approximately 53% of MCG's then outstanding common stock. The offer expired on December 3, 2014 and MCG acquired all of the shares of common stock tendered in the offer, which represented approximately 11% of MCG's then outstanding common stock.

Starting in the third quarter of 2014, MCG suspended the payment of dividends. By the end of 2014, MCG had stopped making new investments and originating new loans. As of December 31, 2014, MCG had no borrowings, seven remaining portfolio companies with a combined fair value of \$75.3 million and \$105 million in cash.

On January 22, 2015, the MCG board of directors met and discussed MCG's future prospects. Following a thorough review of MCG's investment portfolio and market conditions, the MCG board determined to explore



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strategic alternatives for the company and to formally engage Morgan Stanley & Co. LLC ( Morgan Stanley ) as its financial adviser and Wachtell, Lipton, Rosen & Katz ( Wachtell Lipton ) as its legal adviser in the matter.

On February 9, 2015, MCG issued a press release announcing its intent to explore strategic alternatives to maximize stockholder value, including a possible sale of the company.

Following the public announcement, Morgan Stanley contacted a total of 103 potential counterparties, including BDCs, specialty finance companies, private equity funds, credit funds and asset managers to solicit their interest in pursuing a strategic transaction with MCG. Of those contacted, 52 entered into confidentiality agreements with MCG that included customary terms regarding non-disclosure of MCG's non-public information but that did not include standstill provisions that could have limited any of these parties from making a subsequent offer. Each party that entered into a confidentiality agreement was given access to information regarding, among other things, MCG's business, management, assets, liabilities, financial condition and results of operations and was requested to submit a preliminary indication of interest by February 26, 2015.

Twenty-three parties ultimately submitted preliminary indications of interest in connection with the first round of the process. The preliminary indications of interest included (i) proposals to acquire all of the outstanding shares of MCG Common Stock, (ii) proposals to convert MCG into an externally managed business development company or closed-end fund in which MCG stockholders would retain an ownership interest and (iii) a proposal that MCG pursue a monetization of its existing capital loss carryforwards.

On March 2, 2015, the MCG board of directors met with its legal and financial advisers as well as members of MCG management. Morgan Stanley provided the MCG board of directors with an update on the status of discussions with potential strategic partners, including a summary of the indications of interest received. The MCG board of directors and its advisers discussed the preliminary indications of interest, including in each case the value offered to MCG stockholders, the type of consideration offered, and the feasibility of completing the transaction. Following a detailed discussion, the MCG board of directors instructed Morgan Stanley to (1) inform four parties, including PFLT, that they had been selected to continue in the process and were invited to submit definitive transaction proposals, and (2) instruct certain of the remaining parties that their preliminary indications of interest did not provide sufficient value but that they were invited to revise their proposals to offer greater value to MCG stockholders. The four parties invited to continue in the process were requested to submit final binding offers by April 2, 2015. Other than as described below, no other participant invited to revise its proposal did so.

One of the participants not invited into the second round of the process, HC2 Holdings, Inc. ( HC2 ), had submitted a proposal to acquire all outstanding MCG stock for consideration which HC2 valued at 105% of NAV at closing, net of transaction costs. Pursuant to the terms of the preliminary indication of intent, the consideration payable would primarily consist of HC2 common stock and a newly created class of HC2 preferred shares with a small amount of cash. The MCG board of directors discussed HC2's offer, noting the difficulty in valuing the securities offered due to HC2's limited operating history and small size, as compared to other bidders in the process. The MCG board of directors also noted that the 7% dividend rate on the preferred securities offered was lower than the interest rate of 11% on HC2's existing debt. The MCG board of directors also considered that there would likely be limited liquidity in the preferred shares and that there was a lack of a consistent dividend history of the common stock. Based on this, the MCG board of directors did not invite HC2 to continue in the process.

Following the receipt of the preliminary indications of interest, one of the MCG directors asked that the directors consider whether, as an alternative to the preliminary indications of interest, it might be possible for either an individual or entity to structure an alternative transaction which could offer greater value to MCG's stockholders by utilizing MCG's existing capital loss carryforwards.



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On March 8, 2015, the MCG board of directors met without the director who requested consideration of that alternative and authorized MCG management to work with such director to determine whether a transaction could be structured along these lines. Additionally, Morgan Stanley was instructed to consider whether there were any other potential parties that could structure such a transaction.

The MCG board of directors also discussed communications received from HC2, one of the bidders who was not invited into the second round, expressing continued interest in pursuing a transaction and indicating a willingness to revise the initial indication of interest to offer greater value to MCG stockholders. The MCG board of directors noted HC2's willingness to revise its offer and ultimately agreed to allow HC2 to proceed into the second round, bringing the total of number of participants in the second round to five. In admitting HC2 to the second round, the board communicated to HC2 a strong preference for an all-cash structure for the transaction or another alternative that provided greater liquidity for MCG stockholders and HC2 had indicated a willingness to accommodate the board's request. The MCG board of directors then directed Morgan Stanley to provide further analysis of the consideration offered and Wachtell Lipton to conduct further diligence with regards to HC2 and its management team so the MCG board of directors could better evaluate the proposed transaction and the securities offered. The MCG board of directors also instructed Morgan Stanley to conduct further negotiations with HC2 to attempt to determine how the investors would value HC2's newly created preferred security and to structure an alternate form of consideration, with a particular desire to receive a cash offer.

During the weeks of March 9 and March 16, 2015, members of MCG management met with representatives of each of the remaining participants in the process in order to provide additional information about MCG for use in their evaluation of a potential definitive transaction.

On March 12, 2015, after the initial deadline for submission of preliminary indications of interest, Company A, an alternative credit investment manager, expressed interest in participating in the process and executed a confidentiality agreement with MCG. The following day, Company A submitted its indication of interest to Morgan Stanley proposing to acquire all of the outstanding shares of MCG Common Stock for MCG's NAV at closing in an all-cash transaction.

On March 17, 2015, the MCG director who had believed that it might be possible to utilize the capital loss carryforwards to create greater value than the current proposals informed members of the MCG board of directors that he had spent significant time considering and assessing such a structure and concluded that it would not be possible to structure such a transaction and that he was no longer pursuing any such alternatives.

On March 19, 2015, the MCG board of directors met to discuss the sale process with representatives of Morgan Stanley and Wachtell Lipton as well as members of MCG management. Following discussion of the proposal received from Company A, the MCG board of directors instructed Morgan Stanley to invite Company A to the second round of the process, bringing the total number of potential participants in the second round to six.

At the meeting, the MCG board of directors also discussed a communication received from another participant in the first round of the process, Company B, who had not been invited to participate in the second round but suggested that there might be an alternative that did not involve a sale of MCG but that provided more value through the utilization of MCG's tax attributes. While it was unclear to the MCG board as to how Company B intended to create additional value for MCG stockholders, the MCG board of directors determined to enter into a confidentiality agreement with Company B in order to obtain further information about its analysis of MCG's capital loss carryforwards to determine whether additional value could be created for MCG stockholders, which was executed on March 24, 2015. Given the lack of clarity as to Company B's proposal and concern that Company B might not have an intention of submitting a bona fide proposal, the confidentiality agreement with Company B did include a standstill provision limiting

Company B's ability to acquire additional MCG securities and take other actions.

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After the special meeting of the MCG board of directors, a draft merger agreement was distributed to the participants in the second round of the process and each party was advised to submit their proposed revisions to the merger agreement along with their definitive transaction proposals on April 2, 2015.

On March 23, 2015, members of MCG management met with representatives of Company A in order to provide them with additional information about MCG for use in their evaluation of a potential transaction.

On March 24, 2015, HC2 submitted a revised letter of intent to the MCG board that provided for an acquisition of all outstanding MCG shares in exchange for a newly created class of HC2 preferred stock valued at 105% of MCG's NAV at closing. Pursuant to the terms of the offer, the newly created preferred stock would enjoy cumulative rights, a liquidation preference and conversion rights along with a quarterly cash dividend at an annualized rate of 8.125% per annum. However, the securities would be subordinate to HC2's existing preferred securities and could be converted to common stock by HC2 under certain conditions. The revised letter was also accompanied by a theoretical valuation of the newly created HC2 preferred security and an overview of HC2's business.

On March 26, 2015, Company B delivered another letter to MCG proposing that it be engaged as MCG's external investment adviser as part of an implementation for a restructuring of the company from a BDC to a closed-end investment management company registered under the 1940 Act.

On March 27, 2015, the MCG board met with its financial and legal advisers to discuss the status of negotiations with the second round participants. Morgan Stanley reported to the MCG board on recent conversations and diligence activity by each participant. Morgan Stanley noted that two parties, including Company A, had not been actively pursuing due diligence or negotiations with respect to a transaction, and a third party had indicated that it was unlikely to submit a final proposal given the state of its business and the lack of need for additional capital at the time.

The MCG board of directors then discussed the latest communication from Company B. Wachtell Lipton reviewed the terms of the non-disclosure agreement between Company B and MCG for the MCG board of directors and Morgan Stanley and Mr. Kennedy reported to the MCG board regarding the results of recent conversations with the management team of Company B. Noting Company B's sustained interest in the matter, the MCG board of directors instructed Morgan Stanley to invite Company B to participate in the second round of the process and submit a definitive transaction proposal as well as proposed revisions to the merger agreement.

The MCG board also discussed the ability of MCG or a potential strategic partner to utilize certain existing capital loss carryforwards in the event of a transaction. Upon further discussion, the board determined to engage Ernst & Young LLP (E&Y), MCG's independent registered public accounting firm, to provide an overview of the potential applicability of certain limitations that could apply with respect to MCG's existing capital losses in the event of a potential transaction.

Of the six participants that were in the second round of the process, only two participants submitted definitive transaction proposals by April 2, 2015, PFLT and HC2.

In its definitive transaction proposal, PFLT proposed to acquire all outstanding shares of MCG Common Stock for \$178.4 million, at a price of \$4.81 per share, in the form of PFLT Common Stock and up to \$25 million in cash. PFLT's offer assumed that (1) MCG's pre-transaction NAV would be approximately \$174.8 million, (2) all but two of MCG's investments would be monetized as of closing, (3) MCG would receive approximately \$3 million from the successful resolution of pending litigation claims and (4) the sale of RadioPharmacy would result in a \$0.6 million realized gain. According to the terms of the proposal, PFLT would not need to incur additional debt to finance the transaction and the PFLT Investment Adviser may contribute up to \$8.3 million to reimburse MCG for related

transaction costs but PFLT reserved the right to terminate the agreement if the market price of PFLT Common Stock were to fall to more than \$0.25 below the PFLT NAV per share. The proposal also indicated that PFLT had received preliminary internal approvals for the transaction and, although the completion of the transaction was subject to further diligence, wished to negotiate and sign a merger agreement promptly.

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The proposal noted that PFLT's investment advisory agreement with the PFLT Investment Adviser provides for a management fee of 1% of gross assets (excluding cash and cash equivalents) and an approximate incentive fee of 10% of profits in excess of a 7% return to stockholders.

HC2 submitted a final proposal that offered to purchase all outstanding stock of MCG at an amount nominally valued by HC2 at 105% of MCG's assumed post-transaction NAV, or approximately \$4.75 per share of MCG Common Stock, in the form of a newly issued class of cumulative perpetual preferred securities of HC2. The proposal provided for certain rights of the new security, including a liquidation preference, a cumulative dividend right, and conversion rights into HC2 common stock as well as other characteristics. HC2 also offered an alternative transaction structure whereby MCG stockholders could elect to receive HC2 common stock or cash. MCG stockholders who elected to receive cash would be paid approximately \$4.25 per share out of MCG's cash holdings as long as MCG would have no less than \$50 million of cash after the distribution.

On April 3, 2015, the MCG board of directors met to review the ability of MCG or a potential strategic partner to utilize the capital loss carryforwards of MCG in the event of a transaction. The meeting also was attended by representatives of Wachtell Lipton, MCG's executive officers, and E&Y. E&Y provided an overview of the potential applicability of certain limitations that could apply with respect to MCG's existing losses. E&Y also discussed the potential ability of MCG or a potential strategic partner to utilize certain existing net operating loss carryforwards in the event of a transaction. The board concluded that, with the myriad of potential limitations on the ability of MCG or a potential buyer to use these losses, there was not likely to be a transaction structure that could provide more value than the definitive transaction proposals received.

On April 6, 2015, the MCG board of directors met with representatives of Morgan Stanley and representatives of Wachtell Lipton, as well as members of MCG management, to review the two definitive transaction proposals. At that meeting, Morgan Stanley provided a report to the MCG board of recent discussions with the two remaining participants and the MCG board reviewed and discussed, with the assistance of its legal and financial advisers, the two final proposals submitted by the participants PFLT and HC2 and the continued email communications from Company B.

The board noted that the PFLT proposal offered MCG stockholders a premium for their MCG Common Stock, the opportunity to participate in the future growth of the combined company, which would operate as a BDC, and a favorable management fee structure as well as a number of other advantages. See [Reasons for the Merger](#).

The MCG board of directors noted that HC2's proposed stock consideration consisted of a newly created class of securities that may have limited liquidity and may be unlikely to trade at par upon its issuance and the alternative all-cash proposal was at a significant discount to MCG's NAV and may be further reduced depending on MCG's cash holdings at the time of closing. The MCG board of directors also considered the compatibility of HC2's investment portfolio and stockholder base with those of MCG. The MCG board of directors discussed the fact that the MCG stockholder base largely consists of retail stockholders who purchased MCG Common Stock in order to hold a defensive investment in a BDC that generated consistent returns and avail themselves of the protections of the 1940 Act. The MCG board of directors expressed concerns regarding HC2's concentrated investments in equity securities that were funded primarily with debt and the fact that HC2, in its short history, has not regularly declared dividends on its common stock.

In addition to its concerns regarding the consideration offered, the MCG board of directors specifically discussed the past securities law violations of Phillip Falcone, HC2's principal. The MCG board considered that in 2012, the SEC charged both Mr. Falcone and Mr. Falcone's hedge fund, Harbinger Capital Partners LLC ( [Harbinger](#) ), with securities fraud on several counts, including the use of client capital to fund personal tax liabilities and preferential treatment of

certain investors in violation of the fund's governing documents. The charges were eventually settled upon Mr. Falcone and Harbinger's admissions of guilt to all charges and



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payments of \$11.5 million and \$6.5 million, respectively. As part of the settlement, the SEC imposed a ban on Mr. Falcone s acting as or associating with any broker, dealer, investment adviser, municipal securities dealer, municipal adviser, transfer agent, or nationally recognized statistical rating organization.

After extensive discussion, the MCG board of directors determined that, for the collective reasons outlined above, a transaction with HC2 was not in the best interest of MCG stockholders.

Morgan Stanley also reported to the MCG board of directors that, despite multiple conversations, Company B had not submitted a formal proposal or a proposed transaction agreement as the MCG board had requested but continued to offer its services as an external investment adviser and manager for MCG. The MCG board discussed the potential structure of such a transaction but ultimately determined that there is insufficient information for an adequate evaluation of Company B s proposal.

After considering the proposals from the second round participants, the MCG board of directors discussed the revisions to the proposed merger agreement submitted by PFLT, including the specific terms to be negotiated. Specifically, the MCG board of directors emphasized the importance of closing certainty of the proposed transaction, the value provided to MCG stockholders and the representation of MCG stockholders in the combined company, among others. The MCG board of directors directed Messrs. Neu and O Keefe to engage with PFLT management and Wachtell Lipton to negotiate with PFLT s counsel the terms of the transaction.

On April 7, 2015, MCG entered into a confidentiality agreement with PFLT in order to receive confidential information from PFLT and its advisers.

On April 13, 2015, the MCG board of directors met with representatives of Morgan Stanley and Wachtell Lipton as well as MCG management. The purpose of the meeting was to review the process of negotiations with PFLT and discuss the next steps with regards to HC2 s bid. Messrs. Neu and O Keefe informed the MCG board that they had participated in preliminary discussions with PFLT and PFLT was responsive to the board s suggestions and concerns. During negotiations, PFLT had indicated a willingness to provide for greater closing certainty in exchange for other provisions in the merger agreement, including the amount of consideration offered to MCG stockholders. As a preliminary matter, PFLT agreed to consider the elimination of the termination right in the event that the PFLT common stock was trading more than \$0.25 below the then current NAV per share in the context of an otherwise acceptable transaction. The MCG board of directors directed Messrs. Neu and O Keefe to negotiate further with PFLT management and also instructed MCG management and MCG s advisers to begin reverse diligence on PFLT.

Morgan Stanley also reported to the MCG board of directors that HC2 has continued to reiterate its interest in a possible business combination with MCG and has requested a meeting with the MCG board of directors. In order to fully assess HC2 s proposal and the risks associated with the newly created preferred stock offered as consideration, the MCG board directed its advisers to conduct further due diligence on HC2.

On April 14, 2015 and April 15, 2015, executive officers of MCG conducted due diligence on PFLT at PFLT s offices in New York and with materials provided electronically.

On April 16, 2015, the MCG board met with representatives of Wachtell Lipton and Morgan Stanley, as well as members of MCG management, to discuss the status of negotiations with PFLT and any updates from ongoing conversations with HC2. MCG management presented their diligence findings and informed the board that due diligence on PFLT s portfolio of investments was substantially complete. In evaluating management s findings, the MCG board of directors noted PFLT s consistent history of consistent and, over time, increased dividend distribution and the favorable performance of its investments to date.

Wachtell Lipton also provided an update to the MCG board of directors regarding the status of negotiations namely, the amount and structure of the consideration payable and the restrictions on MCG s

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operations between signing and closing. Wachtell Lipton noted that PFLT had proposed that the mix of consideration be modified to reflect the amount, \$3 million (approximately \$0.08 per MCG share), originally allocated for the settlement of MCG's litigation claims that had not been received as previously assumed and provide such consideration in the form of a contingent value right.

Representatives of Wachtell Lipton and members of MCG management also reported to the MCG board of directors on the status of negotiations regarding the restrictions on MCG's business between the signing of the merger agreement and closing of the transaction. Wachtell Lipton noted PFLT's desire to keep operating costs of MCG to a minimum. The MCG board of directors discussed the actions MCG must take between signing and closing in order to preserve the value of existing investments. After discussions with members of MCG management, the MCG board of directors determined that MCG must retain the ability to actively manage its investments between signing and closing and directed Wachtell Lipton to negotiate further with PFLT and its counsel on the matter.

The MCG board of directors also discussed the risks and uncertainties that would be involved in a transaction with HC2, especially considering the fact that the HC2 common stock was trading at a significant premium to its NAV despite relatively low earnings and that the consideration received by MCG stockholders would consist of newly created HC2 securities with limited liquidity. After detailed discussion with its financial and legal advisers, the MCG board of directors determined that a transaction with HC2 would not be in the best interest of MCG stockholders despite the notional premium offered by the proposal.

The MCG board, with the assistance of its advisers and management, also discussed the advantages and disadvantages of proceeding with the transaction with PFLT as well as the available alternatives, including, among others, liquidation of MCG. As part of this evaluation, the MCG board of directors discussed the complications and uncertainties that would be involved in a liquidation of MCG.

On April 17, 2015, PFLT submitted a revised draft of the proposed merger agreement largely reflective of the recent discussions between Messrs. Neu and O'Keefe and PFLT management. The draft eliminated PFLT's termination rights in the event PFLT common stock was trading below NAV and provided for approximately \$4.75 payable per share of MCG Common Stock in the form of \$4.504 of PFLT common stock, valued at the greater of the NAV per share (calculated 48 hours before the closing date, excluding Sundays and holidays) and the closing price of PFLT common stock as of the second business day before the closing date (the "Closing Price"); \$0.225 in cash; and if the Closing Price is less than the NAV per share of PFLT Common Stock, an amount of cash equal to the lesser of \$0.25 and the difference between the Closing Price and the per share NAV, for each share of PFLT Common Stock received; plus one contingent value right tied to the outcome of MCG's litigation claim. PFLT management reiterated their unwillingness to allocate any value to the pending litigation claim other than the contingent value right. The revised draft merger agreement also contained a termination fee payable by MCG if, in the absence of a superior proposal, MCG stockholders were to fail to approve the merger agreement and merger, and provided for the sale of MCG's interest in Broadview Networks Holdings, Inc. ("Broadview") as a condition to the closing of the merger. Broadview was valued on MCG's books at approximately \$0.2 million.

On April 20, 2015, Mr. Neu participated in further negotiations with the principals of PFLT regarding the amount and structure of consideration offered for all outstanding shares of MCG stock and other items set forth in the proposed merger agreement. Later that day, the MCG board of directors met with representatives of Morgan Stanley and Wachtell Lipton to discuss the status of negotiations with PFLT.

The MCG board of directors noted the addition of the sale of MCG's equity holdings in Broadview as a closing condition to the transaction and discussed the impact on closing certainty. The MCG board of directors noted that MCG has retained its holdings in Broadview to date for its tax attributes; however, after earlier discussions with E&Y

and MCG's legal and financial advisers, the MCG board of directors did not believe it to

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be likely that either MCG or a strategic partner would be able to utilize such tax attributes. Upon further discussion, the MCG board of directors instructed MCG management to monetize MCG's holdings in Broadview in order to ensure closing certainty of the proposed transaction with PFLT.

The MCG board of directors also discussed the possible governance structure of the combined company after closing and noted the importance of representation of MCG stockholders on the board of the combined company at the time of closing. As MCG stockholders would constitute approximately 40 to 45% of the stockholder base of the combined company, there should be temporary protections in place to safeguard their interests. The MCG board of directors determined to continue to engage with PFLT to reach a mutually acceptable transaction expeditiously.

In addition, the MCG board of directors discussed, with the help of Wachtell Lipton, the potential tax treatment of the transaction. Representatives of Wachtell Lipton presented to the board on the legal requirements of a tax-free transaction. The MCG board of directors noted the difficulty of satisfying certain legal requirements and the fact that a number of MCG's stockholders might prefer a taxable transaction in order to be able to realize losses without having to sell their MCG Common Stock.

On April 23, 2015, MCG entered into an agreement to sell its entire equity holdings in Broadview for book value and the sale was completed on April 29, 2015. Following the sale, MCG's assets consisted of its debt investments in C7 Data Centers, Inc., GMC Television Broadcasting, LLC, Pharmalogic Holdings Corp. and South Bay Mental Health Center, Inc.

On April 24, 2015, Messrs. Neu and O'Keefe engaged in further discussions with PFLT's management regarding the potential transaction and again sought to receive value for MCG's outstanding litigation, noting that the costs and complexities associated with a contingent value right relative to the value potentially receivable. While PFLT's management would not accord any value to this litigation, the parties did agree that MCG would not have to pay a termination fee if its stockholders were to fail to approve the merger agreement and merger in the absence of another proposal and also acknowledged that by virtue of their ownership of the combined company the MCG stockholders would receive the benefit of approximately 40 to 45% of any litigation settlement. PFLT's management also agreed, subject to the necessary due diligence and compliance with applicable regulation, to seek to have PFLT's board of directors appoint two members of the MCG board of directors to its board of directors upon closing of the transaction.

On April 28, 2015, the MCG board of directors met with representatives of Wachtell Lipton, Morgan Stanley, and members of MCG management. First, the MCG board of directors discussed, with the help with its financial and legal advisers, the terms of the revised merger agreement. Wachtell Lipton reported to the MCG board of directors that, upon further discussion with PFLT's counsel, it was uncertain that the transaction would receive tax-free treatment due to the nature of MCG's operations. The directors discussed the impact of a taxable transaction on MCG stockholders and the available alternatives. The directors noted that there were no tax-free alternatives reasonably available to MCG and its stockholders and, of the potential alternatives, the proposed transaction continued to offer the most value for MCG stockholders.

Mr. Neu then advised the MCG board of directors that, subject to receipt of requisite board approval, MCG was in a position to execute the revised merger agreement with PFLT and announce the transaction. At this meeting, representatives of Wachtell Lipton reviewed with the board the terms and conditions of the proposed merger agreement and the MCG board's fiduciary duties when considering the proposed transaction. Representatives of Morgan Stanley rendered an oral opinion to the board of directors of MCG, which was subsequently confirmed by the delivery of a written opinion dated April 28, 2015, to the effect that, as of such date, and based upon and subject to the factors and assumptions set forth in such opinion, the consideration pursuant to the merger agreement was fair from a financial point of view to MCG stockholders. For a further discussion of the opinion of Morgan Stanley, see "The

Merger Opinion of Morgan Stanley & Co. LLC.

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The MCG board of directors considered various reasons to approve the merger agreement, including certain countervailing factors. For a further discussion of the material factors considered by the MCG board of directors, see

Reasons for the Merger below. After discussion with its financial and legal advisers, and members of MCG's management, and in light of the reasons considered, the MCG board of directors unanimously:

determined the Merger Agreement and the transactions contemplated thereby, including the Merger, to be advisable, fair to and in the best interests of MCG's stockholders;

approved and adopted the Merger Agreement and the transactions contemplated thereby, including the Merger; and

resolved to recommend that MCG stockholders adopt the Merger Agreement and approve the Merger.

On April 28, 2015, following the foregoing events, the Merger Agreement was executed by MCG, PFLT, Sub One, Sub Two and the PFLT Investment Adviser.

On the morning of April 29, 2015, the parties issued a joint press release publicly announcing entry into the Merger Agreement.

On May 4, 2015, HC2 published and sent to the MCG board of directors an unsolicited non-binding offer to acquire all outstanding shares of MCG in a stock-for-stock transaction. On the same day, the MCG board of directors acknowledged receipt of the offer and committed to evaluating the proposal in compliance with the MCG board's fiduciary duties and obligations under the Merger Agreement.

Pursuant to the terms of the unsolicited non-binding offer, each share of MCG Common Stock would be exchanged for \$0.226 in cash and, at the election of MCG stockholders, either (i) 0.434 of a share of HC2 common stock or (ii) 0.191 of a share of a newly created class of HC2 cumulative perpetual preferred stock with a dividend rate of 8.125%. The newly created class of HC2 preferred stock would have certain liquidation preference and cumulative rights but would also be subject to a mandatory conversion into HC2 common stock at HC2's election in certain circumstances. HC2 valued the consideration at approximately \$5.00 per share of MCG Common Stock.

On May 5, 2015, the MCG board of directors met with representatives of Wachtell Lipton, Morgan Stanley and MCG management to discuss HC2's unsolicited non-binding offer. Representatives of Wachtell Lipton informed the MCG board of directors of its fiduciary duties under applicable law as well as MCG's obligations under the Merger Agreement. Subsequently, representatives of Morgan Stanley discussed the valuation of the proposed merger consideration and provided the board with an overview of HC2's business and historical performance. In its analysis of the proposal, Morgan Stanley noted that there were no independent, third-party estimates or price targets available for HC2 and that HC2 has a limited operating history as an industrial holding company under its current leadership team.

The MCG board of directors discussed, with the help of its legal and financial advisers, the advantages and disadvantages of HC2's unsolicited offer. The board noted that HC2's latest proposal offered the same type of consideration as HC2's final proposal in the second round of the process and therefore raised similar concerns for the MCG board of directors. The MCG board of directors also discussed the lack of closing certainty of HC2's offer. Pursuant to the proposal, the proposed transaction was subject to further due diligence and negotiation of a definitive transaction agreement. The MCG board of directors noted that HC2 had conducted diligence during the process and

had the same unfettered access to MCG's data room and members of management as every other bidder initiated into the second round and MCG's assets consisted largely of cash and other easily valued assets. The MCG board of directors also noted the fact that HC2 did not submit a proposed merger agreement with its latest proposal even though a proposed merger agreement was provided with HC2's final bid in the second round of the process and stated that the proposal was subject to the negotiation of definitive documentation.



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On May 11, 2015, a special meeting of the MCG board of directors was held with representatives of Wachtell Lipton and Morgan Stanley as well as members of MCG management. At this meeting, the MCG board of directors discussed further, with the help of its legal and financial advisors, the unsolicited non-binding offer from HC2. The MCG board of directors considered the information available regarding HC2's business and Mr. Falcone's recent admissions of securities laws violations as well as the valuation of the proposed stock consideration, prepared by Morgan Stanley.

The MCG board of directors specifically discussed the volatility of the HC2 common stock. In its analysis, Morgan Stanley had noted that HC2 common stock had been in the 50 to 75% volatility range and its historical volume-weighted average price was \$9.3058 for the six-month period before the meeting date. Unlike PFLT Common Stock, which has traded consistently between \$13 to \$14 for a sustained period of time, HC2 common stock had a 52-week low of \$3.77 and high of \$13.09. As to the preferred securities offered, the MCG board of directors noted the uncertainty surrounding a future market for the securities considering their subordination in HC2's existing capital structure and their low rate of return compared to that of HC2's existing indebtedness.

The MCG board of directors also considered the difficulty of obtaining the necessary approval of MCG stockholders for the proposed transaction given the nature of HC2's business. The MCG board of directors discussed the significant differences between HC2's investment holdings and that of MCG's legacy portfolio. The MCG board of directors discussed the fact that the proposed transaction would replace MCG stockholders' investments in a lower risk portfolio of senior secured loans that was protected by the 1940 Act with holdings in a highly-levered portfolio of equity securities with a limited track record and in a company that offered no 1940 Act protection.

The MCG directors also specifically considered Mr. Falcone's recent admissions of securities law violations, the highly leveraged structure of HC2 and the significant compensation paid to its principals despite the company's relatively low earnings. The MCG board of directors discussed Mr. Falcone's history of securities law violations and the existing ban by the SEC on his acting as or associating with any broker, dealer, investment adviser, municipal securities dealer, municipal adviser, transfer agent, or nationally recognized statistical rating organization as well as a number of other factors that the board had previously considered in evaluating HC2's earlier proposals. In addition, the MCG board of directors noted HC2's substantial borrowings and its potential impact on the value of the securities to be issued to MCG stockholders. Despite the preferred designation of some of the securities offered as consideration, the HC2 equity securities would be subordinated to \$54 million of existing HC2 preferred stock as well as \$396 million of debt, valued as of May 10, 2015.

Later that day, HC2 filed its Quarterly Report on Form 10-Q.

On May 12, 2015, HC2 submitted a letter to the MCG board of directors requesting a response to its most recent proposal.

On May 14, 2015, the MCG board of directors met with representatives from Morgan Stanley and Wachtell Lipton as well as MCG management to further evaluate HC2's proposed transaction and to discuss the recent communications received from HC2. Morgan Stanley provided a comparison of offers received as well as further analysis of the expected timing to close each transaction, certainty around each offer, HC2's performance, information on HC2's lines of business, comparison of stock ownership of HC2 and PFLT and the consideration that MCG shareholders would receive in each transaction. Morgan Stanley also discussed the valuation of the consideration offered by HC2 and noted that while it was unclear whether the termination fee was payable by MCG or by HC2 if the company decided to accept HC2's offer, but that they assumed if MCG stockholders bore this cost, and accounting for that fee, the stated value of the proposed consideration payable drops to \$4.81 per share, which amounted to approximately 106% of the company's estimated NAV at closing.

In addition, Morgan Stanley discussed HC2's investment holdings and its results of operations as reported in HC2's Quarterly Report on Form 10-Q filed on May 11, 2015, including those of the HC2's two largest

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investments Global Marine Systems Ltd. and Schuff International Inc. Morgan Stanley noted that HC2 reported favorable projections for the company's future earnings but there were no third-party estimates or price targets available for HC2 or its portfolio companies. The MCG board of directors noted that HC2 acquired both investments with a substantial amount of debt at valuations significantly lower than their implied value today. In addition, the MCG board of directors again expressed concerns regarding the differences between HC2's highly-leveraged capital structure and MCG's legacy operations. The MCG board of directors instructed Morgan Stanley and MCG management to conduct further research and analysis of HC2's financials in light of its recent earnings release.

On May 17, 2015, after further analysis of HC2's SEC filings and other publicly available information, the MCG board of directors met with representatives of Morgan Stanley, Wachtell Lipton and MCG management to again discuss HC2's proposal. MCG management provided its analysis of HC2's capitalization, results of operations and free cash flow as well as a sum-of-the-parts analysis. Morgan Stanley provided its analysis of HC2's pro forma results as outlined in its SEC filings as well as HC2's current valuation implied by its market capitalization.

The MCG board of directors discussed, with the help of its legal and financial advisers, the risks associated with the significant amount of debt and preferred equity that would rank senior to the securities offered in the proposed transaction by HC2 to MCG's stockholders, the volatility in HC2's stock price, the ability of HC2 to raise an equivalent amount of equity capital in the open market, and the limited amount of free cash flow available to holders of HC2 common stock relative to pro forma EBITDA. Morgan Stanley also reviewed the marketability and liquidity of the securities offered by both HC2 and PFLT. Wachtell Lipton also noted that a transaction with HC2 would mean that MCG stockholders would no longer enjoy the protections of the 1940 Act that are currently applicable to MCG as a BDC. These protections include limitations on affiliate transactions, incurrence of debt over a certain percentage of total assets, diversity of portfolio investments and issuance of stock below NAV as well as a requirement to establish a corporate code of ethics. Following discussion, the MCG board of directors determined to reaffirm its recommendation of the Merger and Merger Agreement.

On May 18, 2015, the MCG board of directors received a letter from a stockholder holding over 5% of the outstanding MCG Common Stock that included a suggestion that a transaction with MCG provided value to both HC2 and PFLT and that the unsolicited proposal from HC2 provided an opportunity for PFLT to increase its existing offer. Subsequent to receipt of the letter, Mr. Neu inquired of the chairman of PFLT whether there were any circumstances under which PFLT would revise its existing offer to provide more value to MCG stockholders. After discussion, PFLT management indicated that there were no circumstances under which it would revise its existing offer. The MCG board of directors met later that day to review the stockholder letter. Upon discussion of the arguments presented in the letter as well as various factors previously noted by the MCG board of directors, the MCG board of directors determined to reaffirm its recommendation of the Merger and Merger Agreement.

## **Reasons for the Merger**

### ***PFLT***

PFLT's board of directors met several times to formally discuss and consider matters relating to the proposed Merger and Merger Agreement. During the course of these meetings, and in informal discussions with PFLT management, PFLT's board of directors requested, received and discussed information from representatives of management, the PFLT Investment Adviser, as well as PFLT's financial, legal and other advisors, regarding the strategic rationale for the proposed Merger, the potential benefits and drawbacks of the proposed Merger and Merger Agreement, the potential benefits and costs of the proposed Merger and the duties of PFLT's board of directors in connection with the proposed Merger. PFLT's board of directors approved the proposed Merger and Merger Agreement at a meeting on April 28, 2015.



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In reaching its determination that the Merger is in PFLT's best interests and the best interests of PFLT's stockholders, the PFLT board of directors considered a number of factors presented at that meeting or at a prior meeting, including the following:

*Improved Scale.* The Merger is anticipated to enhance PFLT's ability to provide capital to financial sponsors and borrowers, which may expand PFLT's reputation in the marketplace. With the ability to make larger investments, PFLT expects to add more value to financial sponsors and borrowers and to negotiate better terms for its portfolio investments.

*Greater Diversification.* The Merger should provide PFLT with a substantially larger asset base initially comprised primarily of cash which may provide the PFLT Investment Adviser with greater investment flexibility and investment options for PFLT, including the potential for greater diversification of portfolio investments, economies of scale and flexibility to manage PFLT's leverage while maintaining an appropriate risk profile for PFLT stockholders.

*Increased Market Capitalization and Additional Market Coverage.* As the Merger may almost double PFLT's market capitalization, there is the potential for greater secondary market liquidity for PFLT Common Stock, which may result in tighter bid-ask spreads and increased trading volume. In addition, a larger asset base and access to more financial sponsors could result in additional market coverage of PFLT and, potentially, an increased focus by current and potential investors on PFLT.

*Reduction in Expense Ratio.* PFLT's board of directors considered the fees and total annual expense ratios of PFLT, including the estimated fees and expenses of the combined company after the Merger. As a result of the Merger, PFLT's fixed costs (e.g., printing and mailing of periodic reports and proxy statements, legal expenses, audit fees and other expenses) are anticipated to be spread across a larger asset base. As a result, the total annual operating expenses borne by PFLT stockholders is expected to be reduced.

*Dilution to PFLT Stockholders.* Although there will be no dilution to per share NAV as PFLT is not authorized to issue PFLT Common Stock at less than NAV, the proposed transaction is anticipated to result in some dilution to the earnings per share of PFLT Common Stock in the shorter-term, due to the period expected to be required to redeploy MCG's cash and cash equivalents. The PFLT board of directors considered information provided by management and KBW as to current expectations for when the MCG assets acquire in the Merger would be fully invested and the ability of PFLT to start returning to PFLT stockholders net investment income in excess of the dilution resulting from the Merger. ***PFLT's earnings and net investment income are variable and depend on many factors, including its asset mix, portfolio turnover level, the amount of leverage utilized, the costs of such leverage, the movement of interest rates and general market conditions. There can be no assurance that the future earnings of PFLT, including the combined company after the Merger, will remain constant or increase.***

*Expected Costs of the Proposed Merger.* The PFLT board of directors considered the costs to be borne by PFLT, regardless of whether the Merger is consummated, including its legal and financial adviser fees. The

PFLT board of directors considered the costs to be borne by PFLT in light of the potential benefits of the Merger and noted that the PFLT Investment Adviser anticipated that the projected costs of the consummated Merger may be recovered over time. The PFLT board of directors also considered the fact that the PFLT Investment Adviser would be paying \$0.226 in cash per MCG common share and would also pay an additional amount in cash if the Merger share price is less than PFLT's closing NAV.

*Distributions to PFLT Stockholders.* The Merger is not expected to reduce PFLT's earnings such that PFLT would not be able to maintain current distribution rates to its stockholders. As a result of additional investment opportunities and flexibility due to the increase in assets from the acquisition of MCG, PFLT is expected to be able to continue to pay steady distributions to its stockholders and, after the ramp up period to invest the cash received in the Merger, increase distributions paid to PFLT stockholders.

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*Compliance with Regulatory Obligations.* The Merger should not affect the ability of PFLT comply with its regulatory obligations, including its ability to maintain appropriate leverage and continue to operate in compliance with the asset coverage requirements set forth in the 1940 Act and to pay dividends required of RICs.

*Tax Considerations.* The taxable nature of the Merger was not expected to have a material effect on PFLT or its stockholders. MCG's significant capital loss carryforwards were not expected to be of material benefit to PFLT, so any restriction on the ability to utilize them as a result of the Merger was of limited importance. In addition, the taxable nature of the Merger was not expected to have a material effect on PFLT or its stockholders.

*Opinion of PFLT's Financial Advisor.* The financial presentation, dated April 28, 2015, of KBW to the PFLT board of directors and the KBW Opinion, dated April 28, 2015, to the PFLT board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to PFLT of the stock consideration in the Initial Merger, as more fully described below under *Opinion of PFLT's Financial Advisor*.

PFLT's board of directors noted that the PFLT Investment Adviser, and its management team, would continue to manage the combined company after the Merger pursuant to the PFLT Investment Management Agreement. PFLT's board of directors also considered that, under the PFLT Investment Management Agreement, the PFLT Investment Adviser has financial interests in the Merger that are different from, and/or in addition to, the interests of PFLT's stockholders. For example, the PFLT Investment Adviser's base management fee is based on a percentage of PFLT's average adjusted gross assets. Because gross assets under management will increase as a result of the Merger, the dollar amount of the PFLT Investment Adviser's base management fee will increase as a result of the Merger, primarily after the cash received in the Merger is invested (as the base management fee is not charged on assets attributable to cash or cash equivalents). In addition, depending on how the cash and cash equivalents are invested by PFLT, the PFLT Investment Adviser will have an opportunity to earn a higher incentive fee. The PFLT board of directors also considered that the PFLT Investment Adviser was committed to paying up to \$11.339 million as part of the Merger in order to avoid goodwill impairments to PFLT.

PFLT's board of directors also considered the proposed addition of two directors from MCG's board of directors. They acknowledged the interest expressed by MCG of having some representation on the board of directors of the combined company, for a period of time, in light of the interests of the MCG stockholders.

This discussion of the information and factors that PFLT's board of directors considered in making its decision is not intended to be exhaustive, but includes the material factors considered by PFLT's board of directors. Because of the wide variety of factors considered in connection with its evaluation of the Merger and Merger Agreement and the complexity of those matters, PFLT's board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of PFLT's board of directors may have given different weights to different factors.

PFLT's board of directors relied on the experience of KBW, as its financial adviser, for analyses of the financial terms of the Merger and for its opinion as to the fairness, from a financial point of view, of the share consideration in the Merger. In addition, PFLT's board of directors relied on its legal advisors for legal analysis in connection with the Merger transaction.

PFLT's board of directors, including its independent directors, considered all of these factors and others as a whole and, on balance, determined the Merger to be in the best interests of PFLT and PFLT stockholders and unanimously approved the Merger and the Merger Agreement.

***MCG***

The MCG board of directors reviewed and considered the terms of the Merger and the Merger Agreement and unanimously determined that the Merger, as contemplated by the Merger Agreement, is fair to and in the best



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interest of MCG and its stockholders. **Accordingly, the board unanimously recommends that MCG stockholders vote FOR the adoption of the Merger Agreement and approval of the Merger.**

In the course of making the unanimous decision to approve and recommend the Merger Agreement and the Merger, the MCG board of directors consulted with outside legal and financial advisers and MCG's management team, and considered a number of factors that it believed supported its decision. The following discussion of the information and factors considered by the MCG board of directors is not intended to be exhaustive and may not include all of the factors considered by the MCG board. In view of the wide variety of factors considered by the MCG board of directors in connection with its evaluation of the Merger, the MCG board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. In considering the factors described below, individual members of the MCG board of directors may have given different weight to different factors. The MCG board of directors considered this information as a whole and considered overall the information and factors to be favorable to, and in support of, its determinations and recommendations.

The material information and factors considered by the MCG board of directors included the following:

*Thorough Review of Strategic Alternatives.* The MCG board of directors engaged in a thorough review of the strategic alternatives available to MCG, including, among other things, restructuring the business to have an external manager, a stock or cash merger, a significant equity investment, a purchase and sale of MCG's portfolio, and a liquidation of the business. In furtherance of the evaluation and proposal solicitation process, MCG publicly announced that it was exploring strategic alternatives, and, at MCG's request, MCG's financial adviser, Morgan Stanley, had contacted 103 potential strategic partners, including BDCs, private equity funds and other potential strategic partners to assess whether they might be interested in pursuing a strategic transaction with MCG. Of the parties contacted, 53 executed confidentiality agreements with MCG and received confidential information concerning MCG's business, management, assets, liabilities, financial condition and results of operations. Of those 53 potential strategic partners, 24 parties submitted preliminary indications of interest, and six were invited to submit definitive transaction proposals, two of which did so. Based on this lengthy and thorough process, MCG's board of directors believes it has explored all alternatives reasonably available to MCG.

*Value.* The MCG board of directors considered the current and historical market prices of the MCG Common Stock, including the market performance of the common stock relative to those of other BDCs and general market indices, and the fact that the merger consideration valued at approximately \$4.75 per share represents a premium of 5% to MCG's NAV (net of transaction expenses), a premium of 15.8% to the closing price of MCG Common Stock on April 28, 2015 and a premium of 24.3% to the closing price of MCG Common Stock on February 6, 2015, the last trading day before the announcement of MCG's intent to explore strategic alternatives.

*Resumption of Dividend Payments.* The receipt of shares of PFLT Common Stock in exchange for shares of MCG Common Stock will likely permit MCG stockholders to receive dividend payments again, which PFLT has paid consistently on a monthly basis for the past several years in increasing amounts.

*Strategic and Business Considerations.* Because the MCG stockholders will be stockholders in PFLT following the Merger, MCG stockholders stand to participate in the future growth and prospects of the combined businesses of MCG and PFLT. PFLT is an established BDC with a strong capital position and performance history. The expertise that the PFLT Investment Adviser brings to the combined company is expected to help to create earnings stability and take advantage of growth opportunities.

*Diversity of PFLT's Portfolio.* PFLT's \$335.5 million portfolio, valued as of March 31, 2015, consists of investments in 71 different companies across 18 different industries, with no single investment constituting more than 5% of PFLT's entire portfolio. As stockholders of PFLT following the merger, MCG stockholders will be able to share in the consistent yield of this highly diversified portfolio of investments.

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*Low Risk Profile of PFLT's Portfolio.* PFLT primarily invests through providing Floating Rate Loans to middle-market companies and at least 65% of PFLT's overall portfolio consists of senior secured loans. PFLT's focus on providing senior secured loans to its portfolio companies ensures that PFLT's claim has priority in a potential liquidation of its portfolio companies. As stockholders in PFLT following the Merger, MCG stockholders are expected to be able to enjoy the protection offered by this lower-risk profile portfolio of investments.

*Compatibility with Existing Investments.* PFLT's focus on providing senior secured loans to middle-market private companies is in line with MCG's investment strategy to date and has created an investment portfolio that is highly compatible with MCG's historical investments. As stockholders in PFLT after the Merger, MCG stockholders will continue to hold investments in a BDC and enjoy the protections of the 1940 Act.

*Favorable Capital Structure.* As a BDC, PFLT is subject to the asset coverage requirements imposed by the Investment Company Act of 1940 and cannot incur indebtedness or issue senior securities in excess of 200% of its total assets. PFLT has remained in compliance with this requirement since inception and its leverage ratio as of December 31, 2014 was 0.64. Thus, in a potential liquidation event after the merger, the holdings of MCG stockholders in PFLT will be subordinated to only a limited number of senior claims.

*Consistency of Earnings.* PFLT has regularly and consistently reported earnings results and financial statements since its initial public offering in 2011 and PFLT Common Stock has traded at a steady price over the last few years, with volatility in the 7 to 15% range.

*Low Cost Structure.* After the Merger, MCG would be subject to the stockholder investment management structure of PFLT and the PFLT Investment Adviser and would be subject to a management fee of 1% of gross assets (excluding cash and cash equivalents) and an incentive fee that approximates 10% above a hurdle return of 7%, one of the lowest in the BDC industry.

*Compatible Stockholder Base.* PFLT's existing stockholder base is primarily made up of retail investors and only 25% of its common stock is held by institutions or investors affiliated with institutional investors. This stockholder profile is consistent with and complementary to MCG's existing stockholder base.

*Opinion of Morgan Stanley.* The financial analysis reviewed and discussed with the MCG board of directors by representatives of Morgan Stanley as well as the written opinion delivered to the board of directors on April 28, 2015 with respect to the fairness, from a financial point of view, to the holders of MCG Common Stock of the PFLT Common Stock and cash consideration set forth in the Merger Agreement. For more information, see *The Merger Opinion of Morgan Stanley & Co. LLC*.

MCG's board of directors considered the following factors relating to the HC2 proposal:

*Limited Operating History.* HC2 was formed in early 2014, upon its acquisition of PTGi Holdings, Inc., and its common stock was listed on the NYSE in December 2014. As such, there is limited information available

about the company and there is minimal independent research coverage of the company and its securities. There are no independent projections of target share prices and no assurance of the value of the consideration offered.

*Value.* The value of the consideration offered by HC2 in its proposal does not account for the termination fee payable by MCG upon termination of the existing transaction with PFLT, which would reduce the value of the consideration offered by HC2 to \$4.81 per share. In addition, the stated value of the newly issued class of preferred securities must be further discounted to account for its subordination to the existing class of preferred stock as well as to HC2's existing indebtedness, which has an interest rate of approximately 11%.

*No Assurance of Dividends.* HC2 has not consistently paid dividends on a quarterly basis since inception. In addition, pursuant to the terms of the unsolicited offer, the newly created class of preferred shares is subject to a mandatory conversion whereby HC2 may cause all issued and

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outstanding shares of the newly-issued preferred stock to convert into shares of common stock under certain circumstances, thereby eliminating the right of the holders of the preferred stock to a quarterly cash dividend. Additionally, future dividends on HC2 common stock are unlikely due to HC2's limited free cash flow.

*Strategic and Business Concerns.* In connection with its Annual Report on Form 10-K for the fiscal year ended December 31, 2014, HC2 reported a material weakness in its internal control over financial reporting related to certain tax provisions, which may result in immediate expenses payable by HC2 and may be indicative of additional material weaknesses that could negatively impact the combined company.

*Executive Compensation.* Mr. Falcone received compensation from HC2 in excess of \$15 million and other executives were paid over \$8 million in 2014.

*High Volatility of HC2 Common Stock.* Since HC2's listing on the NYSE, the volatility of its common stock has been in the 50 to 75% range. For example, the volume-weighted average trading price (VWAP) the last six months is around \$9.01, the VWAP of the last three months is \$10.18, and the VWAP of the last month is \$10.44. As the proposed transaction consideration is based on a fixed exchange ratio, there is no guarantee of the value of the consideration that MCG stockholders would receive upon closing of the transaction.

*Uncertainty of Closing.* HC2's proposal is non-binding in nature and may not be completed according to its terms. The proposal noted that the proposed transaction remains subject to confirmatory due diligence despite the fact that HC2 conducted diligence and spoke to MCG management during the second round of the process. Additionally, no proposed merger agreement accompanied the proposal and the letter noted that the proposed transaction remained subject to negotiation of a definitive transaction agreement. The transaction may also require regulatory approval or SEC exemptive relief in order to remove from MCG stockholders the regulatory protections they have historically enjoyed.

*Incompatibility with Existing Investments.* HC2 is a conglomerate holding company that holds majority equity positions in a limited number of operating companies that is not subject to the rules and regulations of the 1940 Act. This investment thesis is a significant departure from MCG's legacy business and removes the regulatory protections that MCG stockholders have historically enjoyed.

*Highly Leveraged Structure.* As holders of the newly created class of preferred securities of HC2 following the proposed transaction, MCG stockholders would hold interests subordinated to those of \$53 million of existing HC2 preferred securities and \$415 million of indebtedness as well as \$34 million in pension liabilities, according to HC2's Quarterly Report on Form 10-Q, filed on May 11, 2015. In the Quarterly Report on Form 10-Q, HC2 had book equity of \$103.8 million. It also had goodwill in the amount of \$28.0 million, resulting in tangible book value of \$75.8 million. It had total liabilities of 645.8 million, which equates to a debt to equity ratio of 6.2x and a tangible debt to equity ratio of 8.5x. During the quarter ended March 31, 2015, HC2 lost \$6.5 million. Recipients of HC2 common stock would hold interests that would also be subordinated to those of the newly created class of preferred stock. Thus, MCG stockholders' interests in HC2 would not be as protected in a potential liquidation event following the proposed transaction.

*Risk Profile of HC2's Investments.* HC2 holds majority equity positions in a highly concentrated portfolio of investments, which would expose MCG stockholders, as equityholders of HC2 after the proposed transaction, to much greater risk than that of MCG's legacy business. As such, the interests of MCG stockholders, as stockholders in the parent company following the proposed merger, would be subordinate to any indebtedness incurred or senior securities issued by the portfolio companies. In addition, HC2's portfolio is limited to six companies in several highly regulated industries and, thus, is susceptible to regulatory changes and market fluctuations.

*Regulatory Concerns.* The terms of SEC's ban on Mr. Falcone acting as or associating with any broker, dealer, investment adviser, municipal securities dealer, municipal adviser, transfer agent, or nationally recognized statistical rating organization may prohibit or severely limit the ability to

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complete the proposed transaction. Additionally, after the proposed transaction with HC2, MCG stockholders would no longer enjoy the protections of the 1940 Act. Such protections include limitations on affiliate transactions, incurrence of debt over a certain percentage of total assets, diversity of portfolio investments and issuance of stock below NAV as well as a requirement to establish a corporate code of ethics.

*Limited Liquidity of HC2 Preferred Stock.* Pursuant to the terms of the proposal, certain MCG stockholders can elect to receive a newly-created class of preferred securities. Despite HC2's intent to list such securities for public trading, it is uncertain that a market would develop considering the subordination of the preferred securities in HC2's capital structure and the low rate of return compared to HC2's existing indebtedness.

*Incompatible Stockholder Base.* Approximately 70% of HC2's common stock is currently held by institutional investors. This profile is very different from MCG's existing stockholder base, which consists of a majority of retail investors.

*Uncertainty of Stockholder Approval.* Completion of HC2's proposed transaction is subject to the approval of MCG stockholders. Based on the factors listed above, stockholder approval of the proposed transaction with HC2 would be difficult to obtain.

MCG's board of directors also considered the following material factors relating to the proposed Merger:

the review and analysis of each of MCG's and PFLT's business, financial condition, earnings, risks and prospects;

the historical market prices and trading information with respect to the common stock of MCG and PFLT;

the values and prospects of the portfolio company investments held by MCG and PFLT;

the comparison of historical financial measures for MCG and PFLT, including earnings, return on capital and cash flow, and comparison of historical operational measures; and

the current industry, economic and market conditions and how such conditions are expected to impact MCG's and PFLT's ability to conduct their operations.

MCG's board of directors considered the following negative factors relating to the Merger:

*Restrictions on Ability to Solicit Alternative Offers.* The non-solicitation provisions contained in the Merger Agreement prohibit MCG from soliciting alternative offers from third parties, and permit MCG to consider bona fide alternative proposals from third parties only in certain limited circumstances. These limitations

may discourage third parties from making superior offers to acquire MCG because of the increased price that such third party would have to pay and because MCG would be required to pay PFLT a termination fee of \$7 million upon terminating the merger agreement in connection with a superior proposal.

*Maintenance of PFLT's Current Dividend Payments.* Over the last several years, PFLT has paid dividends or distributions on a monthly basis to its stockholders out of assets legally available therefor. The ability of PFLT to maintain its dividend payments at current levels depends on PFLT's achievement of investment results that will allow PFLT to make a specified level of cash dividends or year-to-year increases in cash dividends. There is no assurance that PFLT will be able to maintain its dividends or distribution payments at the current level.

*Tax Treatment of the Proposed Merger.* The proposed Merger may not be treated as a tax-free organization under Section 368(a) of the Code. If the transaction does not qualify, MCG's stockholders will also recognize gain or loss to the extent that they receive PFLT common stock in exchange for their shares of MCG Common Stock. For more information, see Section Certain Material U.S. Federal Income Tax Consequences of the Merger.



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MCG's board of directors relied on the experience of Morgan Stanley, as its financial adviser, for analyses of the financial terms of the Merger and for their opinion as to the fairness, from a financial point of view, of the consideration offered to the holders of MCG Common Stock. In addition, MCG's board of directors relied on its legal advisers for legal analysis in connection with the merger transaction.

Following the Merger, MCG will cease to exist as a separate entity and will deregister all unsold common stock under its shelf registration statement. Its shares of common stock will no longer trade on the NASDAQ Global Select Market and it will withdraw its election to be treated as a BDC under Section 54(c) of the 1940 Act.

MCG's board of directors concluded that, overall, the positive factors of the transaction to MCG and its stockholders substantially outweigh the risks related to the proposed Merger, and, therefore, unanimously approved the Merger Agreement and the Merger.

The MCG board of directors realized that there can be no assurances about future results, including results considered or expected as described in the factors listed above, such as assumptions regarding the potential benefits of the merger. It should be noted that this explanation of the MCG board's reasoning and all other information presented in this section are forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Special Note Regarding Forward-Looking Statements" beginning on page 66.

## **Recommendation of the Board of Directors of PFLT**

PFLT's board of directors, including its independent directors, unanimously determined that the Merger Agreement, the Merger and the issuance of the PFLT Common Stock pursuant to the Merger, are all advisable, fair to and in the best interest of PFLT's stockholders, and approved and adopted entry into the Merger Agreement, consummation of the Merger and the issuance of the PFLT Common Stock. PFLT's board of directors recommends that PFLT stockholders vote FOR approval of the issuance of the PFLT Common Stock to be issued pursuant to the Merger Agreement and FOR approval of the proposal to adjourn the PFLT special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the PFLT special meeting to approve the foregoing proposal.

## **Recommendation of the Board of Directors of MCG**

MCG's board of directors, including its independent directors, believes that the Merger Agreement and the Merger are advisable, fair, and in the best interest of MCG's stockholders and unanimously recommends that MCG's stockholders vote FOR the adoption of the Merger Agreement and approval of the Merger and FOR the approval of the proposal to adjourn the MCG Special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the MCG Special Meeting to approve the foregoing proposal.

## **Opinion of PFLT's Financial Advisor**

PFLT engaged KBW to render financial advisory and investment banking services to PFLT, including providing the KBW Opinion to the PFLT board of directors as to the fairness, from a financial point of view, to PFLT of the stock consideration in the Initial Merger. PFLT selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the Merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

As part of its engagement, representatives of KBW attended by teleconference the meeting of the PFLT board of directors held on April 28, 2015, at which the PFLT board of directors evaluated the Merger. At this

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meeting, KBW reviewed the financial aspects of the Merger and rendered to the PFLT board of directors the KBW Opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in the KBW Opinion, the stock consideration in the Initial Merger was fair, from a financial point of view, to PFLT. The PFLT board of directors approved the Merger Agreement at this meeting.

The description of the KBW Opinion set forth herein is qualified in its entirety by reference to the full text of the KBW Opinion, which is attached as *Annex C* to this joint proxy statement and prospectus and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the KBW Opinion.

**The KBW Opinion speaks only as of the date of the KBW Opinion. The KBW Opinion was for the information of, and was directed to, the PFLT board of directors (in its capacity as such) in connection with its consideration of the financial terms of the Merger. The KBW Opinion addressed only the fairness, from a financial point of view, of the stock consideration in the Initial Merger to PFLT. It did not address the underlying business decision of PFLT to engage in the Merger or enter into the Merger Agreement or constitute a recommendation to the PFLT board of directors in connection with the Merger, and it does not constitute a recommendation to any holder of PFLT Common Stock or any stockholder of any other entity as to how to vote in connection with the Merger or any other matter, nor does it constitute a recommendation as to whether or not any such stockholder should enter into a voting, stockholders or affiliates agreement with respect to the Merger or exercise any dissenters or appraisal rights that may be available to such stockholder.**

The KBW Opinion was reviewed and approved by KBW's Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the KBW Opinion, KBW reviewed, analyzed and relied upon materials bearing upon the financial and operating condition of PFLT and MCG and the Merger, including, among other things, the following:

a draft of the Merger Agreement dated April 28, 2015 (the most recent draft then made available to KBW);

the audited financial statements and annual reports on Form 10-K for the three fiscal years ended September 30, 2014 of PFLT;

the audited financial statements and annual reports on Form 10-K for the three fiscal years ended December 31, 2014 of MCG;

the unaudited quarterly financial statements and quarterly report on Form 10-Q for the fiscal quarter ended December 31, 2014 of PFLT;

the unaudited quarterly financial results for the period ended March 31, 2015 of PFLT furnished to KBW by PFLT;

the unaudited quarterly financial results for the period ended March 31, 2015 of MCG furnished to KBW by MCG;

certain other interim reports and other communications of PFLT and MCG to their respective stockholders;  
and

other financial information concerning the businesses and operations of PFLT and MCG furnished to KBW by PFLT and MCG or which KBW was otherwise directed to use for purposes of KBW's analyses.

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KBW's consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among other things, the following:

the historical and current financial position and results of operations of PFLT and MCG;

the assets and liabilities of PFLT and MCG;

a comparison of certain financial and stock market information for PFLT and MCG with similar information for certain other companies the securities of which are publicly traded;

financial and operating forecasts and projections of both PFLT on a standalone basis and the combined company pro forma for the Merger and alternative leverage assumptions (including estimates regarding certain pro forma financial effects of the Merger on PFLT) that were prepared by, and provided to KBW and discussed with KBW by, PFLT management and that were used and relied upon by KBW based on such discussions at the direction of such management with the consent of the PFLT board of directors; and

projected NAV and other balance sheet data of MCG, including fair value estimates of MCG's then remaining investments, that were prepared by MCG management and reviewed and approved by PFLT management in consultation with a third party valuation firm, provided to KBW by PFLT management and MCG management and discussed with KBW by PFLT management and MCG management, and used and relied upon by KBW based on such discussions at the direction of PFLT management with the consent of the PFLT board of directors.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation generally. KBW also held discussions with senior management of PFLT and MCG regarding the past and current business operations, financial condition and future prospects of PFLT and MCG and such other matters as KBW deemed relevant to its inquiry. Given that MCG's primary asset is unencumbered cash, KBW's analyses of MCG were based on the NAV of MCG for which KBW used and relied upon solely the NAV of MCG as publicly reported by MCG and, at the direction of PFLT management, the projected NAV and other balance sheet data of MCG, including fair value estimates of MCG's investments, referred to above. KBW was not requested to perform, and KBW did not perform, any separate financial analyses of any of MCG's remaining investments. Although KBW reviewed the nature and terms of certain other merger and recapitalization transactions involving business development companies for which financial information was publicly available, KBW did not rely upon a selected transaction analysis of MCG in connection with the KBW Opinion due to the limited comparability of the Merger with such other transactions given that, among other things, such transactions occurred in 2009 and 2010 during the financial crisis.

In conducting its review and arriving at the KBW Opinion, KBW relied upon, and assumed the accuracy and completeness of, all of the financial and other information provided to it or publicly available and KBW did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the management of PFLT as to the reasonableness and achievability of the financial and operating forecasts and projections of PFLT and the combined company (and the

assumptions and bases for such forecasts and projections, including but not limited to, estimates regarding certain pro forma financial effects of the Merger on PFLT) that were prepared by, and provided to and discussed with KBW by, such management. KBW assumed that such forecasts and projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of such management and that such forecasts and projections would be realized in the amounts and in the time periods estimated by such management. KBW further relied upon PFLT and MCG managements as to the reasonableness and achievability of the projected NAV and other balance sheet data of MCG (and the assumptions and bases therefor, including, but not limited to, the fair value estimates of MCG's then remaining investments) referred to above. KBW assumed, with the consent of PFLT, that all such estimates were reasonably prepared on a basis reflecting the best currently available estimates and judgments of such managements.

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It is understood that the forecasts, projections, estimates and other projected data of PFLT, the combined company and MCG provided to KBW were not prepared with the expectation of public disclosure, that all such forecasts, projections, estimates and other projected data were based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such information. KBW assumed, based on discussions with the respective managements of PFLT and MCG, that such information provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either PFLT or MCG since the date of the last financial statements of each such entity that were made available to KBW. In rendering the KBW Opinion, KBW did not make or obtain any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of PFLT or MCG, nor did KBW evaluate the work performed by the third party valuation firm with which PFLT management consulted as referred to above. In addition, KBW did not evaluate the solvency, financial capability or fair value of PFLT or MCG under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. KBW expressed no opinion as to the value of any specific investments held by PFLT or MCG, or the price at which any such investment may be transferable, at any time. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy.

KBW assumed that, in all respects material to its analyses:

the Merger and any related transaction would be completed substantially in accordance with the terms set forth in the Merger Agreement (the final terms of which KBW assumed would not differ in any respect material to KBW's analyses from the draft reviewed by KBW) with no additional payments or adjustments to the consideration to be received by holders of MCG Common Stock in the Merger;

the representations and warranties of each party in the Merger Agreement and in all related documents and instruments referred to in the Merger Agreement were true and correct;

each party to the Merger Agreement and all related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

there were no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the Merger and any related transaction and that all conditions to the completion of the Merger and any related transaction would be satisfied without any waivers or modifications to the Merger Agreement; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Merger or any related transaction, no restrictions, termination or other payments or amendments or

modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of PFLT, MCG or the combined entity, or the contemplated benefits of the Merger.

KBW assumed that the Merger would be consummated in a manner that complied with the applicable provisions of the Securities Act, the Exchange Act, and all other applicable federal and state statutes, rules and regulations. KBW was further advised that PFLT relied upon advice from its advisors (other than KBW) or other appropriate sources as to all legal, financial reporting, tax, accounting and regulatory matters with respect to PFLT, MCG, Sub One and Sub Two, the Merger and any related transaction and the Merger Agreement. KBW did not provide advice with respect to any such matters.



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The KBW Opinion addressed only the fairness, from a financial point of view, as of the date of the KBW Opinion, of the stock consideration in the Initial Merger to PFLT. KBW expressed no view or opinion as to any terms or other aspects of the Merger or any related transaction, including, without limitation, the form or structure of the Merger (including the form of the consideration to be received by holders of MCG Common Stock in the Merger, the allocation thereof among the stock consideration to be issued by PFLT and the cash consideration to be paid by the PFLT Investment Adviser or the calculation of the stock consideration pursuant to the Merger Agreement using the Net Asset Value (as defined in the Merger Agreement) per Parent Common Share (as defined in the Merger Agreement) or the Merger Share Price (as defined in the Merger Agreement)) or any related transaction, any consequences of the Merger or any related transaction to PFLT, its stockholders, creditors or otherwise, or any terms, aspects, merits or implications of any employment, voting, support, stockholder, settlement or other agreements, arrangements or understandings contemplated or entered into in connection with the Merger or otherwise. The KBW Opinion was necessarily based upon conditions as they existed and could be evaluated on the date of the KBW Opinion and the information made available to KBW through such date. Developments subsequent to the date of the KBW Opinion may have affected, and may affect, the conclusion reached in the KBW Opinion and KBW did not and does not have an obligation to update, revise or reaffirm its opinion. The KBW Opinion did not address, and KBW expressed no view or opinion with respect to:

the underlying business decision of PFLT to engage in the Merger or enter into the Merger Agreement;

the relative merits of the Merger as compared to any strategic alternatives that are, have been or may be available to or contemplated by PFLT or the PFLT board of directors;

the fairness of the amount or nature of any compensation to any officers, directors or employees of any party to the Merger, or any class of such persons, relative to any compensation to the holders of PFLT Common Stock or MCG Common Stock or relative to the stock consideration;

the effect of the Merger or any related transaction on, or the fairness of any consideration to be paid or received to, holders of any class of securities of PFLT, MCG or any other party to any other transaction contemplated by the Merger Agreement;

whether the PFLT Investment Adviser has sufficient cash, available lines of credit or other sources of funds to enable it to pay the aggregate cash consideration to the holders of MCG Common Stock at the closing of the Initial Merger;

whether the actual number of shares of PFLT Common Stock issued as the stock consideration will be determined using the Net Asset Value (as defined in the Merger Agreement) per Parent Common Share (as defined in the Merger Agreement) or the Merger Share Price (as defined in the Merger Agreement) or what the Net Asset Value (as defined in the Merger Agreement) per Parent Common Share (as defined in the Merger Agreement) or the Merger Share Price (as defined in the Merger Agreement) will be;

the actual value of PFLT Common Stock to be issued in the Merger;

the prices, trading range or volume at which PFLT Common Stock or MCG Common Stock will trade following the public announcement of the Merger;

the prices, trading range or volume at which PFLT Common Stock will trade following the consummation of the Merger;

any advice or opinions provided by any other advisor to any of the parties to the Merger or any other transaction contemplated by the Merger Agreement; or

any legal, regulatory, accounting, tax or similar matters relating to PFLT, MCG, their respective stockholders, or relating to or arising out of or as a consequence of the Merger or any related transaction, including whether or not the Merger would qualify as a tax-free reorganization for United States federal income tax purposes.

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In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, PFLT and MCG. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW Opinion was among several factors taken into consideration by the PFLT board of directors in making its determination to approve the Merger Agreement and the Merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the PFLT board of directors with respect to the fairness of the Merger consideration. The type and amount of consideration payable in the Merger were determined through negotiation between PFLT and MCG and the decision by PFLT to enter into the Merger Agreement was solely that of the PFLT board of directors.

The following is a summary of the material financial analyses presented by KBW to the PFLT board of directors in connection with the KBW Opinion. The summary is not a complete description of the financial analyses underlying the KBW Opinion or the presentation made by KBW to the PFLT board of directors, but summarizes the material analyses performed and presented in connection with the KBW Opinion. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

*Merger Impact Analysis.* KBW performed a merger impact analysis using (i) financial and operating forecasts and projections of PFLT on a standalone basis, including estimated NAV and other balance sheet data of PFLT as of March 31, 2015, provided by PFLT management, (ii) projected NAV and other balance sheet data of MCG as of June 30, 2015, including fair value estimates of MCG's then remaining investments, provided by PFLT management and MCG management, and (iii) financial and operating forecasts and projections of the combined company pro forma for the Merger and alternative leverage assumptions (including estimates regarding certain pro forma financial effects of the Merger on PFLT) provided by PFLT management. KBW analyzed the potential financial impact of the Merger on certain projected financial results of PFLT for the period March 31, 2015 through September 30, 2017. This analysis indicated the Merger could be dilutive to PFLT's estimated NAV per share as of March 31, 2015 and as of the end of each subsequent fiscal quarters through September 30, 2017. This analysis also indicated that (i) under a leverage scenario assuming target leverage of approximately 61% debt to equity by September 30, 2016 (consistent with PFLT's debt to equity ratio as of March 31, 2015), the Merger could be dilutive to PFLT's fiscal year ending September 30, 2016 estimated net operating income per share and, after rounding, neutral to PFLT's fiscal year ending September 30, 2017 estimated net operating income per share and, on a quarterly basis, the Merger could be dilutive to PFLT's estimated net operating income per share for each fiscal quarter during the observed period March 31, 2015 through September 30, 2017, and (ii) under a leverage scenario assuming target leverage of approximately 80% debt to equity by December 31, 2016, the Merger could be dilutive to PFLT's fiscal year ending September 30, 2016 estimated net operating income per share and accretive to PFLT's fiscal year ending September 30, 2017 estimated net operating income per share and, on a quarterly basis, the Merger could be dilutive to PFLT's estimated net operating

income per share for each fiscal quarter during the observed period through June 30,

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2016 and accretive to PFLT's estimated net operating income per share for each fiscal quarter during the remainder of the observed period. For all of the above analysis, the actual results achieved by PFLT following the Merger may vary from the projected results, and the variations may be material.

*Selected Companies Analyses of MCG.* Using publicly-available information, KBW compared certain financial and stock market information for MCG to similar information for selected business development companies that were listed on NASDAQ, NYSE or the NYSE MKT, nine of which were internally-managed (referred to as the Internally-Managed Group), four of which were not currently paying a regular cash dividend (referred to as the No-Dividend Group) and 12 of which had an average net investment income to dividends ratio over the preceding two fiscal quarters of less than 98% (referred to as the <98% NII/Dividend Group). Business development companies that became public after January 1, 2014, do not pay a regular cash dividend and/or did not have reported fourth quarter 2014 financials were excluded from the <98% NII/Dividend Group.

The following nine companies were included in the Internally-Managed Group:

American Capital, Ltd.

Main Street Capital Corporation

Hercules Technology Growth Capital, Inc.

Triangle Capital Corporation

Capital Southwest Corporation

Medallion Financial Corp.

KCAP Financial, Inc.

Newtek Business Services Corp.

Harris & Harris Group, Inc.

The following four companies were included in the No-Dividend Group:

American Capital, Ltd.

GSV Capital Corp.

Firsthand Technology Value Fund, Inc.

Harris & Harris Group, Inc.

The following twelve companies were included in the <98% NII/Dividend Group:

Hercules Technology Growth Capital, Inc.

BlackRock Capital Investment Corporation

TICC Capital Corp.

Fifth Street Senior Floating Rate Corp.

Capitala Finance Corp.

Medallion Financial Corp.

KCAP Financial, Inc.

WhiteHorse Finance, Inc.

Solar Senior Capital Ltd.

Gladstone Capital Corporation

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## Horizon Technology Finance Corporation

## OFS Capital Corporation

KBW reviewed, among other things, the closing stock price on April 24, 2015 as a percentage of reported NAV per share as of December 31, 2014, referred to as Price/NAV ratio, for the selected companies in each of the Internally-Managed Group, the No-Dividend Group and the <98% NII/Dividend Group, as adjusted for intra-quarter capital raises. These Price/NAV ratio ratios for the selected companies were compared with the corresponding Price/NAV ratio for MCG.

The results of the analysis are set forth in the following table:

	Price to 12/31/14 NAV Ratio for Selected Companies				Price to 12/31/14 NAV Ratio for MCG
	25th Percentile	Average	Median	75th Percentile	
<b>Internally-Managed Group</b>	89.0%	108.8%	100.6%	133.1%	
<b>No-Dividend Group</b>	65.3%	73.0%	70.2%	78.0%	87.1%
<b>&lt;98% NII/Dividend Group</b>	86.3%	93.2%	89.5%	94.5%	

KBW then applied the resulting multiples to MCG's projected NAV per share as of June 30, 2015 as provided by PFLT management and MCG management. The selected companies analyses indicated the following implied values per share of MCG Common Stock:

	Implied Values Per Share of MCG Common Stock Based on the Following Price to 12/31/14 NAV Ratios for Selected Companies			
	25th Percentile	Average	Median	75th Percentile
<b>Internally-Managed Group</b>	\$ 4.23	\$ 5.16	\$ 4.78	\$ 6.32
<b>No-Dividend Group</b>	\$ 3.10	\$ 3.47	\$ 3.33	\$ 3.70
<b>&lt;98% NII/Dividend Group</b>	\$ 4.10	\$ 4.43	\$ 4.25	\$ 4.49
<b>AVERAGE</b>	\$ 3.81	\$ 4.35	\$ 4.12	\$ 4.84

No company used as a comparison in the above selected companies analyses is identical to MCG. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Discounted Dividend Analyses of PFLT and the Combined Company.* KBW performed a discounted dividend analysis of PFLT on a standalone basis to estimate ranges for the implied equity value of PFLT. In this analysis, KBW used financial and operating forecasts and projections of PFLT on a standalone basis prepared by and provided to KBW by PFLT management, and assumed discount rates ranging from 7.5% to 15.5%. The ranges of values were derived by adding (i) the present value of the estimated cash dividends that PFLT could generate over the period December 31, 2014 to December 31, 2017, and (ii) the present value of PFLT's implied terminal value at the end of such period. KBW derived implied terminal values using two methodologies, one based on Price/NAV ratios and the other based on dividend yield. Based on implied terminal values for PFLT calculated by applying a range of 0.80x to 1.20x estimated NAV per share as of December 31, 2017, this analysis resulted in a range of implied values per share of PFLT Common Stock of \$10.01 per share to \$16.79 per share. Based on implied terminal values for PFLT calculated

by applying a range of 8.5% to 6.5% to estimated calendar year 2017 dividends per share, this analysis resulted in a range of implied values per share of PFLT Common Stock of \$11.29 per share to \$17.08 per share.

KBW also performed a discounted dividend analysis of the pro forma combined company to estimate ranges for the implied equity value of the pro forma combined company. In this analysis, KBW used financial and operating forecasts and projections of the combined company pro forma for the Merger and alternative leverage assumptions prepared by and provided to KBW by PFLT management, and assumed discount rates ranging from 6.5% to 10.5%. The ranges of values were derived by adding (i) the present value of the estimated cash dividends



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that the combined company could generate over the period December 31, 2014 to September 30, 2017, and (ii) the present value of the combined company's implied terminal value at the end of such period. KBW derived implied terminal values using two methodologies, one based on Price/NAV ratios and the other based on dividend yield. Based on implied terminal values for the combined company calculated by applying a range of 0.80x to 1.20x estimated NAV per share as of September 30, 2017, this analysis resulted in the following ranges of implied values per share of PFLT Common Stock: (i) \$11.06 per share to \$16.85 per share under the leverage scenario assuming target leverage of approximately 61% debt to equity by September 30, 2016 and \$11.11 to \$16.93 under a leverage scenario assuming target leverage of approximately 80% debt to equity by December 31, 2016. Based on implied terminal values for PFLT calculated by applying a range of 8.5% to 6.5% to estimated fiscal year ending September 30, 2017 dividends per share, this analysis resulted in a range of implied values per share of PFLT Common Stock of \$12.75 per share to \$17.54 per share under both leverage scenarios.

The results of a discounted dividend analysis are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The foregoing discounted cash flow analyses did not purport to be indicative of the actual values or expected values of PFLT or the pro forma combined company.

*Other Information.* In addition to the financial analyses described above, KBW reviewed with the PFLT board of directors for informational purposes, among other things, the following:

a selected transaction analysis of MCG based on publicly available information related to four selected transactions involving business development companies that occurred in 2009 and 2010 during the financial crisis, which analysis resulted in (i) mean and median implied values per share of MCG Common Stock of \$2.68 and \$2.51, respectively, based on applying mean and median Price/NAV ratios for the selected transactions to MCG's projected NAV per share as of June 30, 2015 as provided by PFLT management and MCG management, (ii) mean and median implied values per share of MCG Common Stock of \$4.97 and \$4.34, respectively, based on applying the mean and median one-week premiums paid in the selected transactions to the last closing price of MCG Common Stock prior to MCG's public announcement of its pursuit of strategic alternatives on February 9, 2015, and (iii) mean and median implied values per share of MCG Common Stock of \$4.07, in both cases, based on applying the mean and median one-month premiums paid in the selected transactions to MCG's public announcement of its pursuit of strategic alternatives on February 9, 2015; and

a comparison of certain financial and stock market information for PFLT with similar information for three selected companies that were listed on NASDAQ, NYSE or the NYSE MKT and are externally-managed floating rate senior secured business development companies.

*Miscellaneous.* KBW acted as financial advisor to PFLT in connection with the Merger and did not act as an advisor to or agent of any other person. As part of its investment banking business, KBW is continually engaged in the valuation of securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. In the ordinary course of KBW's business as a broker-dealer and further to existing sales and trading relationships between a broker-dealer affiliate of KBW and the PFLT Investment Adviser, KBW and its affiliates may from time to time purchase securities from, and sell securities to, PFLT, MCG and the PFLT Investment Adviser. As a market maker in securities, KBW and its affiliates may from time to time have a long or short position in, and buy or sell, debt or equity securities of PFLT and MCG for KBW's own account and for the accounts of its customers. KBW employees may also maintain individual

positions in PFLT Common Stock or MCG Common Stock, which positions currently include an individual position in shares of MCG Common Stock held by a senior member of the KBW advisory team providing services to PFLT in connection with the Merger.

Pursuant to the KBW engagement agreement, PFLT agreed to pay KBW a total cash fee currently expected to be \$1,000,000, \$250,000 of which became payable to KBW upon the rendering of the KBW Opinion and the balance of which is contingent upon the consummation of the Merger. PFLT also agreed to reimburse KBW for

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reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities relating to or arising out of KBW's engagement or KBW's role in connection therewith. In addition to this present engagement, in the two years preceding the date of the KBW Opinion, KBW and one of its affiliates have provided investment banking and financial advisory services to PFLT and its affiliate, PennantPark Investment Corporation, and received compensation for such services. KBW acted as an underwriter in PFLT's July 2013 follow-on equity offering and PennantPark Investment Corporation's September 2014 follow-on equity offering and September 2014 notes offering. In addition, KBW's affiliate acted as financial advisor to PennantPark Investment Corporation in connection with general advisory services in April 2013. Furthermore, a bank affiliate of KBW is a lender to PennantPark Investment Corporation. In the two years preceding the date of the KBW Opinion, KBW has not provided investment banking and financial advisory services to MCG. KBW's affiliate provided financial advisory services to MCG in its sale of select portfolio investments in August 2014. KBW may in the future provide investment banking and financial advisory services to PFLT, PennantPark Investment Corporation or MCG and receive compensation for such services.

**Opinion of MCG's Financial Advisor**

MCG retained Morgan Stanley to provide it with financial advisory services and to render a financial opinion in connection with the Merger. The MCG board of directors selected Morgan Stanley to act as its financial advisor based on Morgan Stanley's qualifications, expertise and reputation, and its knowledge of MCG's business and affairs. On April 28, 2015, Morgan Stanley rendered its oral opinion, which was subsequently confirmed in writing, to the MCG board of directors to the effect that, as of that date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in the written opinion, the merger consideration to be received by the holders of shares of MCG Restricted Common Stock, but excluding (i) shares owned by MCG as treasury stock, (ii) shares owned by PFLT, (iii) subject to certain exceptions, shares owned by wholly owned subsidiaries of MCG or PFLT and (iv) shares owned by MCG stockholders who are entitled to and who properly exercise and perfect appraisal rights under Delaware law) pursuant to the Merger Agreement was fair from a financial point of view to the holders of shares of MCG Common Stock.

**The full text of the written opinion of Morgan Stanley to the MCG board of directors, dated as of April 28, 2015, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion, is attached to this joint proxy statement and prospectus as *Annex B*, and is incorporated by reference into this joint proxy statement and prospectus in its entirety. The summary of the opinion of Morgan Stanley in this joint proxy statement and prospectus is qualified in its entirety by reference to the full text of the opinion. You are encouraged to read Morgan Stanley's opinion and this section summarizing Morgan Stanley's opinion carefully and in their entirety. Morgan Stanley's opinion was directed to the MCG board of directors, in its capacity as such, and addressed only the fairness from a financial point of view of the merger consideration to be received by the holders of MCG Common Stock (including shares of MCG Restricted Common Stock, but excluding (i) shares owned by MCG as treasury stock, (ii) shares owned by PFLT, (iii) subject to certain exceptions, shares owned by wholly owned subsidiaries of MCG or PFLT and (iv) shares owned by MCG stockholders who are entitled to and who properly exercise and perfect appraisal rights under Delaware law) pursuant to the Merger Agreement, as of the date of the opinion, and did not address any other aspects or implications of the Merger. It was not intended to, and does not, constitute advice or a recommendation to any stockholder of MCG or PFLT as to how to vote at any stockholders' meeting to be held in connection with the Merger or whether to take any other action with respect to the Merger.**

In connection with rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other business and financial information of MCG and PFLT, respectively;

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reviewed certain internal financial statements and other financial and operating data concerning the MCG and PFLT, respectively;

reviewed certain financial projections of MCG prepared by the management of MCG;

reviewed certain publicly available financial forecasts relating to the business and financial prospects of PFLT, and compiled a forecast relating to the business and financial prospects of PFLT (excluding MCG) derived from a consensus of analysts, with such forecast (and the underlying methodologies and calculations) being reviewed with MCG's management, which are referred to as the Buyer Street Forecasts;

discussed the past and current operations and financial condition and the prospects of MCG with senior executives of MCG;

discussed the past and current operations and financial condition and the prospects of PFLT with senior executives of PFLT;

reviewed the pro forma impact of the Merger on PFLT's consolidated capitalization and financial ratios;

reviewed the reported prices and trading activity for MCG Common Stock and PFLT Common Stock;

compared the financial performance of MCG and PFLT and the prices and trading activity of MCG Common Stock and PFLT Common Stock with that of certain other publicly-traded companies comparable with MCG and PFLT, respectively, and their securities;

reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

participated in certain discussions and negotiations among representatives of MCG and PFLT and their financial and legal advisors;

reviewed the Merger Agreement and certain related documents; and

performed such other analyses, reviewed such other information and considered such other factors as it deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information that was publicly available or supplied or otherwise made available to it by MCG and PFLT, and formed a substantial basis for its opinion. With respect to MCG's financial projections, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and

judgments of the management of MCG of the future financial performance of MCG. Morgan Stanley's analysis relating to the business and financial prospects for PFLT for purposes of its opinion were made on the basis of the Buyer Street Forecasts. Following discussions with MCG's management, Morgan Stanley assumed that the Buyer Street Forecasts were a reasonable basis upon which to evaluate the business and financial prospects of PFLT. Morgan Stanley expressed no view as to the Buyer Street Forecasts or the assumptions on which they were based. In addition, Morgan Stanley assumed that the Merger will be consummated in accordance with the terms set forth in the Merger Agreement without any waiver, amendment or delay of any terms or conditions. Morgan Stanley also assumed that the definitive Merger Agreement would not differ in any material respects from the draft thereof furnished to Morgan Stanley. Morgan Stanley assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents required for the Merger, no delays, limitations, conditions or restrictions will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the Merger. Morgan Stanley is not a legal, tax or regulatory advisor. Morgan Stanley is a financial advisor only and has relied upon, without independent verification, the assessment of MCG and PFLT and their legal, tax or regulatory advisors with respect to legal, tax or regulatory matters. Morgan Stanley expressed no opinion with respect to the fairness of the amount or nature of the compensation to any of MCG's officers, directors or employees, or any class of such persons, relative to the merger consideration to be received by the holders of shares of the MCG Common Stock

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(including shares of MCG Restricted Common Stock) in the Merger. Morgan Stanley's opinion did not address the relative merits of the Merger as compared to any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of MCG or PFLT, nor was it furnished with any such valuations or appraisals (other than third-party valuation reports for certain third-party benchmark portfolio investments). Morgan Stanley is not an expert in the evaluation of allowance for loan losses, and it did not (a) make an independent evaluation of the adequacy of the allowance for loan losses at MCG or PFLT or (b) examine any individual loan credit files of MCG or PFLT (nor was Morgan Stanley requested to conduct such a review) and, as a result, it assumed that the aggregate allowance for loan losses of the MCG and PFLT was adequate. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Morgan Stanley as of, April 28, 2015. Events occurring after such date may affect Morgan Stanley's opinion and the assumptions used in preparing it, and Morgan Stanley did not assume any obligation to update, revise or reaffirm its opinion.

*Summary of Financial Analyses*

The following is a brief summary of the material financial analyses performed by Morgan Stanley in connection with the preparation of its opinion to the MCG board of directors. The following summary is not a complete description of Morgan Stanley's opinion or the financial analyses performed and factors considered by Morgan Stanley in connection with its opinion, nor does the order of analyses described represent the relative importance or weight given to those analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before April 24, 2015 (the last trading day of the last full week immediately preceding the April 28, 2015 presentation by Morgan Stanley to the MCG board of directors), and is not necessarily indicative of current market conditions. **Some of the summaries of financial analyses below include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. The analyses listed in the tables and described below must be considered as a whole; considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Morgan Stanley's opinion.**

*MCG Analysis**Historical NAV per Share Analysis*

Using publicly available information, Morgan Stanley reviewed the historical trading range of shares of MCG Common Stock and the historical NAV per share of MCG Common Stock, in each case, for the 52 weeks ended April 24, 2015, in order to calculate the ratio of the price per share of MCG Common Stock to MCG's NAV per share (P/NAV) over this period. Over this period, MCG's P/NAV ranged from a low of approximately 0.65x to a high of approximately 0.95x. Using this range, and based upon MCG's estimated NAV of \$167 million as of June 30, 2015 (as estimated by MCG's management), Morgan Stanley calculated an implied equity value range of MCG of approximately \$109 million to approximately \$159 million (as compared to the estimated aggregate value of the merger consideration of \$175 million as of April 24, 2015).

*Comparable Company Analysis*

Morgan Stanley performed a comparable company analysis, which attempts to provide an implied value of a company by comparing it to similar companies that are publicly traded.

Morgan Stanley reviewed and compared, using publicly available information, certain current and historical financial information for MCG with corresponding current and historical financial information, ratios and public market multiples for publicly traded business development companies that (i) share similar business



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characteristics and have certain comparable operating characteristics with MCG and (ii) had current market capitalizations of \$100 million to \$300 million (which was comparable to MCG's market capitalization of approximately \$151 million as of April 24, 2015). These companies were the following:

Alcentra Capital Corporation

American Capital Senior Floating, Ltd.

Capitala Finance Corp.

CM Finance Inc.

Fidus Investment Corporation

Firsthand Technology Value Fund, Inc.

Garrison Capital Inc.

Gladstone Capital Corporation

Gladstone Investment Corporation

GSV Capital Corp.

Horizon Technology Finance Corporation

KCAP Financial, Inc.

Medallion Financial Corp.

Monroe Capital Corporation

MVC Capital, Inc.

OFS Capital Corporation

OHA Investment Corporation

PennantPark Floating Rate Capital Ltd.

Solar Senior Capital Ltd.

Stellus Capital Investment Corporation

TriplePoint Venture Growth BDC Corp.

WhiteHorse Finance, Inc.

For each selected company, Morgan Stanley calculated such company's P/NAV. The following table presents the results of this analysis:

Peer Group	Mean	Median
P/NAV	0.89x	0.92x

Based on the results of this analysis, Morgan Stanley applied a P/NAV range of 0.80x - 1.00x to MCG's estimated NAV of \$167 million as of June 30, 2015 (as estimated by MCG's management), which resulted in an implied equity value range of MCG of approximately \$134 million to approximately \$167 million (as compared to the estimated aggregate value of the merger consideration of \$175 million as of April 24, 2015).

No company included in the comparable company analysis is identical to MCG. In evaluating comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of MCG. These include, among other things, the impact of competition on the business of MCG and the industry generally, industry growth, and the absence of any adverse material change in the financial condition and prospects of MCG and the industry, and in the financial markets in general. Mathematical analysis (such as determining the mean or median) is not, in itself, a meaningful method of using comparable company data.

**Table of Contents***Liquidation Analysis*

Morgan Stanley also performed a liquidation analysis of MCG, which attempts to calculate the value that holders of shares of MCG Common Stock would be expected to receive in the event of a liquidation of MCG. In performing its analysis, Morgan Stanley assumed that:

the aggregate proceeds that MCG would receive in connection with a liquidation would be equal to \$167 million, which is equal to 100% of MCG's estimated NAV as of June 30, 2015 (as estimated by MCG's management); and

based upon estimates provided by MCG's management, the aggregate costs to MCG of undertaking such a liquidation would be between \$5 million and \$10 million.

Based on the above assumptions, Morgan Stanley calculated an implied equity value range of PFLT of approximately \$157 million to approximately \$162 million (as compared to the estimated aggregate value of the merger consideration of \$175 million as of April 24, 2015).

*Contribution Analysis*

Morgan Stanley performed a contribution analysis, which compared the respective contributions of MCG and PFLT to the pro forma combined entity using certain financial metrics to the (1) 44% of the pro forma combined entity that would be owned by the former holders of MCG Common Stock and (2) 56% of the pro forma combined entity that would be owned by the pre-merger holders of PFLT Common Stock:

	<b>MCG</b>	<b>PFLT</b>
Equity Market Capitalization (as of April 24, 2015)	42%	58%
Total Assets <sup>(1)</sup>	33%	67%
Total Equity <sup>(2)</sup>	44%	56%

\* Except as otherwise noted, MCG and PFLT information is as of June 30, 2015 (as estimated by MCG's management and PFLT's management, respectively).

***PFLT Analysis****Historical NAV per Share Analysis*

Using publicly available information, Morgan Stanley reviewed the historical trading range of shares of PFLT Common Stock and the historical NAV per share of PFLT Common Stock for the 52 weeks ended April 24, 2015, in order to calculate the ratio of the price per share of PFLT Common Stock to PFLT's NAV over this period. Over this period, PFLT's P/NAV ranged from a low of approximately 0.90x to a high of approximately 1.00x. Using this range, and based upon PFLT's estimated NAV of \$209 million as of June 30, 2015 (as estimated by PFLT's management), Morgan Stanley calculated an implied equity value range of PFLT of approximately \$188 million to approximately \$209 million (as compared to PFLT's market capitalization of approximately \$210 million as of April 24, 2015).

*Comparable Company Analysis*

Morgan Stanley performed a comparable company analysis, which attempts to provide an implied value of a company by comparing it to similar companies that are publicly traded.

Morgan Stanley reviewed and compared, using publicly available information, certain current and historical financial information for PFLT with corresponding current and historical financial information, ratios and public market multiples for publicly traded business development companies that (i) share similar business characteristics and have certain comparable operating characteristics with PFLT and (ii) had current market capitalizations of \$100 million to \$300 million (which was comparable to MCG's market capitalization of approximately \$210 million as of April 24, 2015). These companies were the following:

Alcentra Capital Corporation

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American Capital Senior Floating, Ltd.

Capitala Finance Corp.

CM Finance Inc.

Fidus Investment Corporation

Firsthand Technology Value Fund, Inc.

Garrison Capital Inc.

Gladstone Capital Corporation

Gladstone Investment Corporation

GSV Capital Corporation

Horizon Technology Finance Corporation

KCAP Financial, Inc.

Medallion Financial Corp.

Monroe Capital Corporation

MVC Capital, Inc.

OFS Capital Corporation

OHA Investment Corporation

Solar Senior Capital Ltd.

Stellus Capital Investment Corporation

TriplePoint Venture Growth BDC Corp.

WhiteHorse Finance, Inc.

For each selected company, Morgan Stanley calculated such company's stock price as a multiple of its NAV. The following table presents the results of this analysis:

<b>Peer Group</b>	<b>Mean</b>	<b>Median</b>
<b>P/NAV</b>	<b>0.89x</b>	<b>0.92x</b>

Based on the results of this analysis, Morgan Stanley applied a P/NAV range of 0.80x–1.00x to PFLT's estimated NAV of \$209 million as of June 30, 2015 (as estimated by PFLT's management), which resulted in an implied equity value range of PFLT of approximately \$167 million to approximately \$209 million (as compared to PFLT's market capitalization of approximately \$210 million as of April 24, 2015).

No company included in the comparable company analysis is identical to PFLT. In evaluating comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of PFLT. These include, among other things, the impact of competition on the business of PFLT and the industry generally, industry growth, and the absence of any adverse material change in the financial condition and prospects of PFLT and the industry, and in the financial markets in general. Mathematical analysis (such as determining the mean or median) is not, in itself, a meaningful method of using comparable company data.

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### *Dividend Discount Analysis*

Morgan Stanley performed a dividend discount analysis to determine a range of implied equity values of PFLT. The range was determined by adding:

the present value of an estimated future dividend stream for PFLT over the 5-year period from 2015 to 2019;  
and

the present value of an estimated terminal value of PFLT Common Stock at the end of the year 2019.  
In performing its analysis, Morgan Stanley utilized the following assumptions:

net investment income and dividends per share for 2015 will be consistent with Wall Street consensus estimates

annual portfolio growth of 10% years 2016 to 2019;

unlevered portfolio yield of 8.5% through 2016, followed by annual growth in line with LIBOR forward curve for years 2017 to 2019;

90% distribution of net investment income;

\$50 million equity capital raises in each year from 2015 to 2019, in each case at an issuance price equal to the NAV per share of PFLT Common Stock;

a terminal value multiple of 0.95x of the NAV per share of PFLT Common Stock; and

a cost of equity from 4.4% to 6.4%.

Based on the above assumptions, Morgan Stanley calculated an implied equity value range of PFLT of approximately \$229 million to approximately \$245 million (as compared to PFLT's market capitalization of approximately \$210 million as of April 24, 2015).

### *General*

In connection with the review of the Merger by the MCG board of directors, Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a financial opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular

weight to any analysis or factor it considered. Morgan Stanley believes that selecting any portion of its analyses, without considering all analyses as a whole, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley's view of the actual value of MCG. In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business, regulatory, economic, market and financial conditions and other matters, many of which are beyond MCG's control. These include, among other things, the impact of competition on MCG's businesses and the industry generally, industry growth, and the absence of any adverse material change in the financial condition and prospects of MCG and the industry, and in the financial markets in general. Any estimates contained in Morgan Stanley's analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

Morgan Stanley conducted the analyses described above solely as part of its analysis of the fairness from a financial point of view of the merger consideration to be received by the holders of shares of MCG Common Stock (including shares of MCG Restricted Common Stock, but excluding (i) shares owned by MCG as treasury stock, (ii) shares owned by PFLT, (iii) subject to certain exceptions, shares owned by wholly owned subsidiaries



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of MCG or PFLT and (iv) shares owned by MCG stockholders who are entitled to and who properly exercise and perfect appraisal rights under Delaware law) pursuant to the Merger Agreement and in connection with the delivery of its opinion to the MCG board of directors. These analyses do not purport to be appraisals or to reflect the prices at which shares of MCG Common Stock might actually trade.

The merger consideration to be paid by PFLT pursuant to the Merger Agreement was determined through arm's length negotiations between MCG and PFLT and was unanimously approved by the MCG board of directors. Morgan Stanley provided advice to the MCG board of directors during these negotiations but did not, however, recommend any specific consideration to MCG, nor did Morgan Stanley opine that any specific consideration to be received by MCG stockholders constituted the only appropriate merger consideration for the Merger.

Morgan Stanley's opinion and its presentation to the MCG board of directors was one of many factors taken into consideration by the MCG board of directors in deciding to approve and adopt the Merger Agreement and the transactions contemplated thereby. Consequently, the analyses as described above should not be viewed as determinative of the recommendation of the MCG board of directors with respect to the consideration to be received by MCG stockholders pursuant to the Merger Agreement or of whether the MCG board of directors would have been willing to agree to different form or amount of consideration. Morgan Stanley's opinion was approved by a committee of Morgan Stanley investment banking and other professionals in accordance with Morgan Stanley's customary practice.

Morgan Stanley's opinion was not intended to, and does not, constitute advice or a recommendation to any stockholder of MCG or PFLT as to how to vote at any stockholders' meeting to be held in connection with the Merger or whether to take any other action with respect to the Merger. Morgan Stanley's opinion did not address any other aspect of the Merger, including the prices at which shares of PFLT Common Stock will trade following consummation of the Merger or at any time.

The MCG board of directors retained Morgan Stanley based upon Morgan Stanley's qualifications, experience and expertise. Morgan Stanley is a global financial services firm engaged in the securities, investment management and individual wealth management businesses. Its securities business is engaged in securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trading, prime brokerage, as well as providing investment banking, financing and financial advisory services. Morgan Stanley, its affiliates, directors and officers may at any time invest on a principal basis or manage funds that invest, hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for their own account or the accounts of its customers, in debt or equity securities or loans of MCG, PFLT, or any other company, or any currency or commodity, that may be involved in the Merger, or any related derivative instrument.

Under the terms of its engagement letter, Morgan Stanley provided the MCG board of directors with financial advisory services and a financial opinion, described in this section and attached to this joint proxy statement and prospectus as *Annex B*, in connection with the Merger, and MCG has agreed to pay Morgan Stanley a fee of \$2 million, the entirety of which is contingent upon the closing of the Merger. MCG has also agreed to reimburse Morgan Stanley for its reasonable expenses, including reasonable fees of outside counsel and other professional advisors, incurred in connection with its engagement. In addition, MCG has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses relating to or arising out of Morgan Stanley's engagement.

In the two years prior to the date of its opinion, Morgan Stanley or its affiliates have provided financing services for PFLT and its affiliates, for which Morgan Stanley and its affiliates has received aggregate compensation of

approximately \$4.0 million. Morgan Stanley and its affiliates may also seek to provide financial advisory and financing services to PFLT and its affiliates in the future and would expect to receive fees for the rendering of these services.

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### **Interests of the PFLT Investment Adviser in the Merger**

The PFLT Investment Adviser has financial interests in the Merger that are different from, and/or in addition to, the interests of PFLT's stockholders. The PFLT Investment Adviser's base management fee is based on a percentage of PFLT's average adjusted gross assets. Because gross assets under management will increase as a result of the Merger, the dollar amount of the PFLT Investment Adviser's management fee will increase as a result of the Merger. Depending on how the cash and cash equivalents are invested by PFLT, the PFLT Investment Adviser will have an opportunity to earn a higher incentive fee. As such, the PFLT Investment Adviser has agreed to pay the cash consideration as indirect reimbursement to MCG for its costs related to the Merger.

### **Interests of Certain Persons Related to MCG in the Merger**

In considering the recommendations of the MCG board of directors with respect to the Merger, MCG stockholders should be aware that certain persons related to MCG have certain interests, including financial interests, in the transactions that may be different from, or in addition to, the interests of MCG stockholders generally. The MCG board of directors was aware of these interests and considered them, among other matters, in approving the Merger Agreement and the transactions contemplated thereby, and in making its recommendations that MCG stockholders approve and adopt the Merger Agreement and approve the transactions contemplated thereby. Under the terms of the employee benefit plans and other agreements described below, the consummation of the Merger will constitute a change in control or term of similar meaning.

### ***Certain Assumptions***

Except as otherwise specifically noted, for purposes of estimating the potential payments and benefits described in this section and the tables below, the following assumptions were used:

The effective time of the Merger is May 15, 2015, which is the assumed date of the consummation of the Merger solely for purposes of this Merger-related compensation disclosure;

The relevant price per share of MCG Common Stock is \$4.53, the average closing price per share as quoted on NASDAQ over the first five business days following the first public announcement of the Merger Agreement;

The employment of each MCG Named Executive Officer is terminated without cause by MCG immediately prior to the effective time of the Merger;

Estimation of the value of outstanding equity awards is calculated based on the outstanding equity awards held by each director or MCG Named Executive Officer as of May 15, 2015, the latest practicable date before the filing of the registration statement of which this joint proxy statement and prospectus forms a part; and

The amounts set forth in the narrative and tables below regarding MCG Named Executive Officer compensation are based on compensation levels as of May 15, 2015.

***Treatment of Restricted Shares***

MCG's directors and MCG Named Executive Officers have received from time to time grants of restricted shares of MCG Common Stock. Outstanding restricted grants primarily consist of grants of 175,000 shares to each of Messrs. Kennedy and Reichert in 2012. Each restricted share of MCG Common Stock shall vest in full upon the effective time, and shall be automatically converted into and exchanged for the right to receive \$4.521 in PFLT Common Stock for each share of MCG Common Stock held immediately prior to the Initial Merger, as well as \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock).

Based on the assumptions described above under Certain Assumptions, the estimated aggregate amount that would become payable to two members of the MCG board of directors in respect of the vesting of their

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unvested restricted shares is \$22,650. For an estimate of the value of the payments and benefits that would become payable to each of the executive officers of MCG in respect of their unvested restricted shares, see [Estimated Potential Payments to MCG's Named Executive Officers in Connection with the Merger](#) below.

### ***Severance Agreements***

MCG is party to a severance, confidentiality and non-solicitation agreement with each of Keith Kennedy and Tod K. Reichert (the [Severance Agreements](#)). Upon a termination of employment by MCG without [cause](#) or a resignation by the executive for [good reason](#) (the definition of which includes a change in control), Messrs. Kennedy and Reichert each will become eligible to receive, conditioned upon the executive's execution of a general release of claims: (1) severance pay equal to 1.5 times the sum of his (a) base salary, calculated at the highest rate in effect during the two fiscal years prior to termination, and (b) then-current target bonus, paid in installments over 18 months, (2) Company-paid continuation of healthcare benefits for 18 months (to be followed by an additional 18 months of COBRA coverage at the executive's sole cost), and (3) immediate and full vesting of all shares of restricted stock awards that were granted to the executive during his employment with MCG.

Under the terms of the Merger Agreement, MCG will pay the full value of the severance payments and benefits to Messrs. Kennedy and Reichert in a lump sum upon the Closing Date. The amount paid in respect of the executives healthcare benefits will equal the full premium amount for such benefits for 18 months, plus the amount necessary so that after the payment of all income, employment and other taxes, Messrs. Kennedy and Reichert retain the full premium amount.

For an estimate of the value of the severance payments and benefits that would become payable to Messrs. Kennedy and Reichert in respect of their Severance Agreements, see [Estimated Potential Payments to MCG's Named Executive Officers in Connection with the Merger](#) below.

### ***2011 Severance Pay Plan***

Beverly Jane Alley participates in the MCG 2011 Severance Pay Plan (the [Severance Plan](#)). Upon a termination of employment by MCG without [cause](#) or a resignation by Ms. Alley for [good reason](#), Ms. Alley will become entitled to receive, conditioned upon the execution of a general release of claims, (1) nine months of base salary, paid in a lump sum or installments in MCG's sole discretion, and (2) payments corresponding to the Company-paid portion of healthcare plan premiums for nine months. Pursuant to the Merger Agreement, MCG will pay the full value of the severance payments and the full value of applicable healthcare plan premiums to Ms. Alley in a lump sum upon the Closing Date, plus the amount necessary so that after the payment of all income, employment and other taxes with respect to her healthcare benefits, Ms. Alley retains the full premium amount of such benefits.

For an estimate of the value of the severance payments and benefits that would become payable to Ms. Alley in respect of the Severance Plan, see [Estimated Potential Payments to MCG's Named Executive Officers in Connection with the Merger](#) below.

### ***Incentive Compensation Pool***

Under the terms of the Merger Agreement, MCG may establish an incentive compensation pool of up to \$950,000 that MCG and the MCG board of directors may use to retain employees and consultants. If the effective time of the Merger has not occurred by June 30, 2015, MCG may establish an additional incentive compensation pool in an amount equal to 25% of aggregate employee base salary per calendar quarter; provided that amounts paid pursuant to this incentive compensation pool are subject to certain limitations. MCG may pay money from each incentive pool as

the MCG board of directors deems appropriate. Messrs. Kennedy and Reichert and Ms. Alley may receive distributions from the incentive compensation pool if the MCG board of directors exercises its right to make such payments. As of the date of this filing, MCG has not determined which employees, if any, will receive payments from the incentive compensation pools.

**Table of Contents*****Indemnification and Insurance***

Following the effective time, PFLT and Sub Two will, to the fullest extent permitted under applicable law, indemnify, defend and hold harmless and advance expenses to the present and former directors and officers of MCG or any of its consolidated subsidiaries, and any such person presently or formerly serving at the request of MCG or any of its consolidated subsidiaries as a director, officer, employee, trustee or fiduciary of any other person or entity or under or with respect to any employee benefit plan, against all costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages, penalties, amounts paid in settlement or other liabilities incurred in connection with any proceeding or claim arising out of actions or omissions occurring at or prior to the effective time, including the Merger.

The Merger Agreement requires PFLT and Sub Two to maintain for a period of six years following the effective time a directors' and officers' liability insurance policy covering the present and former officers and directors of MCG or any of its consolidated subsidiaries, containing identical or better coverage and amounts and terms and conditions no less advantageous as that coverage currently provided by MCG's current policies, except that PFLT and Sub Two are not required to expend more than 300% of the last amount expended by MCG for its policies. If PFLT and Sub Two are unable to maintain or obtain such a policy, PFLT and Sub Two must only obtain as much comparable insurance as is available for 300% of MCG's last premium. MCG may, at its option, fulfill its obligation to maintain a directors' and officers' liability insurance policy covering the present and former officers and directors of MCG by purchasing a directors' and officers' insurance policy or a tail policy under MCG's current directors' and officers' liability insurance policy provided that such policy provides substantially equivalent benefits as the current directors' and officers' liability insurance policy.

***Estimated Potential Payments to MCG's Named Executive Officers in Connection with the Merger***

Under the terms of the Merger Agreement, MCG will terminate the employment of each of the MCG Named Executive Officers without cause immediately prior to the effective time of the Merger, contingent upon the occurrence of the effective time of the Merger. Pursuant to the Merger Agreement, the payment of all severance obligations will accelerate and be paid in a lump sum on the Closing Date.

The double-trigger benefits set forth below are payable upon a termination of the executive's employment without cause or a resignation by the executive for good reason (for Messrs. Kennedy and Reichert, the definition of which includes a change of control). The Merger will constitute a change in control under all applicable employee benefit plans and agreements. The following table sets forth the amount of payments and benefits that may be paid or become payable to each of the MCG Named Executive Officers in connection with the Merger pursuant to all applicable employee benefit plans or agreements, based on the assumptions described under Certain Assumptions.

Name	Cash (\$) <sup>(1)</sup>	Equity (\$) <sup>(2)</sup>	Perquisites/ Benefits (\$) <sup>(3)</sup>	Tax	Total (\$)
				Reimbursement (\$) <sup>(4)</sup>	
<b>Keith Kennedy</b>	1,575,000	792,750	22,781	17,256	2,407,787
President & Chief Executive Officer					
<b>Beverly Jane Alley</b>	187,500		6,766	5,125	199,391

Chief Financial Officer and  
Treasurer

<b>Tod K. Reichert</b>	1,275,000	799,794	31,314	23,719	2,129,827
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Executive Vice President, General  
Counsel, Compliance Officer and  
Corporate Secretary



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(1) *Cash*. Cash severance payable to each of the MCG Named Executive Officers consists of the following components:

(a) For each of Messrs. Kennedy and Reichert, 1.5x the sum of (i) annual base salary, calculated at the highest rate in effect during the two fiscal years prior to termination and (ii) target annual bonus in effect as of the date of termination; and

(b) For Ms. Alley, nine months of base salary as in effect as of the date of termination.

All components of the cash severance payments are double-trigger benefits payable only upon a termination of the executive's employment without cause or resignation by the executive for good reason pursuant to the terms of the Severance Agreements and the Severance Plan, as applicable. Pursuant to the terms of the Merger Agreement, the payments and benefits under the Severance Agreements and the Severance Plan will be paid in a lump sum upon the Closing Date. For further details regarding cash severance, see Severance Agreements and 2011 Severance Pay Plan.

(2) *Equity*. Vesting of outstanding restricted shares of MCG Common Stock that were granted to Messrs. Kennedy and Reichert in 2012 is a single-trigger benefit, such that each restricted share of MCG Common Stock will vest upon the Closing Date. The MCG Named Executive Officers do not currently hold any outstanding, unvested equity awards other than restricted shares of MCG Common Stock.

<b>MCG Named Executive Officer</b>	<b>Number of Restricted Shares of MCG Common Stock</b>	<b>Value (\$)</b>
Keith Kennedy	175,000	792,750
Beverly Jane Alley		
Tod K. Reichert	176,555	799,794

For further details regarding the vesting of equity awards, see Treatment of Restricted Shares.

(3) *Perquisites & Benefits*. In lieu of the right to receive healthcare benefits or healthcare plan premium reimbursements, the Merger Agreement provides that each MCG Named Executive Officer is entitled to a lump sum payment upon the Closing Date equal to the full value of healthcare plan premiums for a certain period following the date of termination (18 months for Messrs. Kennedy and Reichert and nine months for Ms. Alley). The healthcare plan premium payment is a double-trigger benefit contingent upon a termination of employment without cause or a resignation by the executive for good reason pursuant to the terms of the severance agreements or Severance Plan, as applicable. For further details regarding healthcare plan premium payments, see Severance Agreements and 2011 Severance Pay Plan. No perquisites will be provided.

(4) *Tax Reimbursements*. In lieu of the right to receive healthcare benefits or healthcare plan premium reimbursements, the Merger Agreement provides that each MCG Named Executive Officer is entitled to a cash payment equal to the monetary value of such healthcare benefits, plus an additional cash payment such that after the payment of all income, employment and other taxes on the healthcare premium payments described in footnote 3 to this table, the MCG Named Executive Officer retains the full aggregate premium amount. The tax

reimbursement payment is payable with respect to the healthcare premium payments described in footnote 3 above, which benefits are a double-trigger benefit contingent upon a termination of employment without cause or a resignation by the executive for good reason pursuant to the terms of the severance agreements or the Severance Plan, as applicable. For further details regarding the tax reimbursement payment with respect to healthcare benefits, see Severance Agreements and 2011 Severance Pay Plan.

***Severance Payments to MCG Employees***

Under the terms of the Merger Agreement, MCG will terminate the employment of all other MCG employees without cause immediately prior to the effective time of the Merger. The Merger Agreement provides for certain lump sum payments to be made to (i) current MCG employees who participate in the Severance Plan

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and whose employment is being terminated in connection with the Merger and (ii) former MCG employees to whom the Company will have, upon the Closing Date, an outstanding or ongoing obligation to provide severance payments or healthcare benefits. All such obligations will be satisfied in full on the Closing Date by making lump sum payments to such employees or former employees. All such payments shall be made in accordance with Section 409A of the Code.

### ***PFLT Board Composition***

Upon completion of the Merger, the members of PFLT's board of directors will continue as directors of PFLT. However, at the effective time, PFLT's board of directors will be increased by two members and PFLT will take actions to cause two members of MCG's board of directors to be appointed to PFLT's board of directors. Richard Neu will be appointed as a Class II director of PFLT with a term expiring at PFLT's 2016 annual meeting of stockholders and Kenneth O'Keefe will be appointed as a Class III director of PFLT with a term expiring at PFLT's 2017 annual meeting of stockholders.

### ***Future Employment and Benefits***

Immediately prior to the consummation of the Merger, MCG will terminate the employment of each MCG employee. Following the consummation of the Merger, PFLT is not under any obligation to make an offer of employment to or to hire any of the employees, officers, directors or consultants of MCG who are employed by or otherwise providing services to MCG immediately prior to the effective time.

The Merger Agreement provides that PFLT and MCG will cooperate to assist MCG's employees in obtaining healthcare benefits after the effective time. The premiums or costs associated with these benefits will be the exclusive expense of each employee.

### **Interests of the PFLT Investment Adviser in the Merger**

The PFLT Investment Adviser has financial interests in the Merger that are different from, and/or in addition to, the interests of PFLT's stockholders. The PFLT Investment Adviser's base management fee is based on a percentage of PFLT's average adjusted gross assets. Because gross assets under management will increase as a result of the Merger, the dollar amount of the PFLT Investment Adviser's management fee will increase as a result of the Merger. Depending on how the cash and cash equivalents are invested by PFLT, the PFLT Investment Adviser will have an opportunity to earn a higher incentive fee.

### **Litigation Relating to the Merger**

Between May 6, 2015, and May 13, 2015, a number of putative class action lawsuits were filed by stockholders of MCG challenging the Merger in the Delaware Court of Chancery. The complaints allege that MCG's directors violated their fiduciary duties by, among other things, not protecting against their supposed conflicts of interest and failing to take steps to maximize the consideration to be received by MCG's stockholders in the Merger. The complaints also allege that PFLT, Sub One and Sub Two (and, in some instances, MCG and the PFLT Investment Adviser) have aided and abetted the MCG directors' purported breach of fiduciary duties. The complaints demand, among other things, a preliminary and permanent injunction against the Merger and rescission of the transaction to the extent that it has been implemented.

### **Regulatory Approvals Required for the Merger**

Completion of the Merger is subject to prior receipt of all approvals and consents required to be obtained from applicable governmental and regulatory authorities to complete the Merger. PFLT and MCG have agreed to obtain all permits, consents, approvals and authorizations from any governmental or regulatory authority necessary to consummate the transactions contemplated by the Merger Agreement.

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There can be no assurance that such regulatory approvals will be obtained, that such approvals will be received on a timely basis or that such approvals will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of PFLT following completion of the Merger.

**Third Party Consents Required for the Merger**

There are no third party consents that are a condition to completion of the Merger by either MCG or PFLT.

MCG and PFLT have each agreed that they will, and will cause their representatives to, cooperate in connection with obtaining approvals and/or consents. There can be no assurance that any such approvals or consents will be obtained or that such approvals or consents will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of PFLT or Sub Two following completion of the Merger.

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**DESCRIPTION OF THE MERGER AGREEMENT**

The following summary, which includes the material terms of the Merger Agreement, is qualified by reference to the complete text of the Merger Agreement, which is attached as *Annex A* to this joint proxy statement and prospectus and is incorporated by reference in this joint proxy statement and prospectus. This summary does not purport to be complete and may not contain all of the information about the Merger Agreement that is important to you. PFLT and MCG encourage you to read the Merger Agreement carefully and in its entirety. This section is not intended to provide you with any factual information about PFLT or MCG. Such information can be found elsewhere in this joint proxy statement and prospectus and in the public filings PFLT and MCG make with the SEC. See [Where You Can Find More Information](#).

**Structure of the Merger**

The Merger Agreement provides that, upon and subject to, the conditions set forth in the Merger Agreement, Sub One will merge with and into MCG pursuant to the Initial Merger and, immediately thereafter and as a single integrated transaction, MCG will merge with and into Sub Two pursuant to the Second Merger.

**Merger Consideration**

In the Merger, each outstanding share of MCG Common Stock (including shares of restricted stock which will vest upon the effective time) will be converted into:

a number of shares of PFLT Common Stock, or the Exchange Ratio, equal to \$4.521 divided by the greater of:

net asset value per share of PFLT Common Stock (computed no more than 48 hours before the effective time of the Merger, excluding Sundays and holidays), or the PFLT Closing NAV; or

the volume weighted average price per share (calculated to the nearest one-thousandth of one cent) of PFLT Common Stock on the NASDAQ Global Select Market for the consecutive period of ten trading days concluding at the close of trading on the second trading day immediately preceding the date of the effective time of the Merger, or the Merger Share Price;

\$0.226 in cash payable by the PFLT Investment Adviser; and

if the Merger Share Price is less than the PFLT Closing NAV, an amount in cash payable by the PFLT Investment Adviser equal to the lesser of:

the Exchange Ratio multiplied by \$0.25; and

the Exchange Ratio multiplied by the amount by which the Merger Share Price is less than the PFLT Closing NAV.

Under no circumstance will the aggregate cash consideration from the PFLT Investment Adviser exceed \$11.339 million. No fractional shares of PFLT Common Stock will be issued, and holders of MCG Common Stock will receive cash in lieu of fractional shares. Instead, each MCG stockholder, who otherwise would have received a fraction of a share of PFLT Common Stock, will receive an amount in cash, without interest, equal to the product of such fractional share multiplied by the volume weighted average price per share (calculated to the nearest one-thousandth of one cent) of PFLT Common Stock on the NASDAQ Global Select Market for the consecutive period of five trading days concluding at the close of trading on the second trading day immediately preceding the date of the effective time of the Merger.

### **Withholding**

PFLT, MCG, Sub One, Sub Two and the exchange agent will be entitled to deduct and withhold from any cash amounts payable to any MCG stockholder such amounts as it is required to deduct and withhold with

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respect to the making of such payment under applicable tax laws. Withheld amounts will be treated as having been paid to the persons in respect of which such deduction or withholding was made.

## **Tax Treatment**

It is expected that the Merger will be a taxable transaction to MCG stockholders for U.S. federal income tax purposes.

## **Representations and Warranties**

The representations and warranties and covenants set forth in the Merger Agreement have been made only for the purposes of such agreement and were solely for the benefit of the parties to the Merger Agreement, may be subject to limitations agreed upon by the contracting parties, including qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the Merger Agreement instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Accordingly, the Merger Agreement is included with this filing only to provide investors with information regarding the terms of the Merger Agreement, and not to provide investors with any factual information regarding the parties to the Merger Agreement or their respective businesses.

In the Merger Agreement, MCG has made customary representations and warranties to PFLT, Sub One and Sub Two with respect to, among other things:

corporate matters related to MCG and its subsidiaries, including organization, good standing and corporate authority;

capitalization;

approval and validity of the Merger Agreement;

required consents and approvals and no violations of law, governance documents or certain agreements;

public filings, regulatory matters and compliance with law;

financial statements and internal controls and procedures;

the absence of undisclosed liabilities and certain changes;

employee benefits and labor matters;



material contracts;

certain tax matters;

brokers and finders; and

the opinion of its financial advisor.

Some of the representations and warranties in the Merger Agreement made by MCG are qualified as to materiality or Company Material Adverse Effect. For purposes of the Merger Agreement, a Company Material Adverse Effect means any occurrence, change, event, effect or development that individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on the business, results of operations, assets, liabilities or financial condition of MCG and its subsidiaries taken as a whole. The definition of Company Material Adverse Effect excludes from clause any individual or combination of occurrences, changes, events, effects or developments resulting from or in connection with (subject in certain instances to MCG being affected disproportionately as compared to other participants in the industry in which MCG operates, in which case the incremental disproportionate impact may be taken into account):

occurrences, changes, events, effects or developments generally affecting any or all of the industries in which MCG and its subsidiaries operate;

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general political, economic or business conditions or changes therein;

general securities or financial market conditions;

changes or proposed changes in any laws, rules, regulations, GAAP or other accounting standards, or authoritative interpretations thereof;

entry into or announcement of the Merger Agreement or the proposed sale of MCG or the pendency of consummation of the transactions contemplated by the Merger Agreement, or any changes or actions resulting from the foregoing;

any action required by law, contemplated by the Merger Agreement, expressly consented to by PFLT, Sub One or Sub Two, or any of their respective affiliates or taken at the request of PFLT;

any litigation relating to the Merger Agreement or the transactions contemplated thereby; or

the failure of PFLT to consent to MCG's request to take certain actions under the interim operating covenants.

In the Merger Agreement, PFLT, Sub One and Sub Two have made customary representations and warranties to MCG with respect to, among other things:

corporate matters related to PFLT and its subsidiaries, including organization, good standing and corporate authority;

capitalization;

approval and validity of the Merger Agreement;

required consents and approvals and no violations of law, governance documents or certain agreements;

public filings, regulatory matters and compliance with law;

financial statements and internal controls and procedures;

the absence of undisclosed liabilities and certain changes;

employee benefits and labor matters;

material contracts;

certain tax matters;

brokers and finders;

certain matters with respect to the PFLT Investment Adviser and the PFLT Administrator; and

sufficient funds.

Some of the representations and warranties in the Merger Agreement made by PFLT, Sub One and Sub Two are qualified as to materiality or Parent Material Adverse Effect. For purposes of the Merger Agreement, a Parent Material Adverse Effect means any occurrence, change, event, effect or development that individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on the business, results of operations, assets, liabilities or financial condition of PFLT and its subsidiaries taken as a whole. The definition of Parent Material Adverse Effect excludes from clause any individual or combination of occurrences, changes, events, effects or developments resulting from or in connection with (subject in certain instances to PFLT being affected disproportionately as compared to other participants in the industry in which PFLT operates, in which case the incremental disproportionate impact may be taken into account):

occurrences, changes, events, effects or developments generally affecting any or all of the industries in which PFLT and its subsidiaries operate;

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general political, economic or business conditions or changes therein;

general securities or financial market conditions;

changes or proposed changes in any laws, rules, regulations, GAAP or other accounting standards, or authoritative interpretations thereof;

entry into or announcement of the Merger Agreement or the proposed acquisition of MCG or the pendency of consummation of the transactions contemplated by the Merger Agreement, or any changes or actions resulting from the foregoing;

any action required by law, contemplated by the Merger Agreement, expressly consented to by MCG of any of its affiliates or taken at the request of MCG;

any litigation relating to the Merger Agreement or the transactions contemplated thereby; or

the failure of MCG to consent to the PFLT's request to take certain actions under the interim operating covenants.

None of the representations and warranties contained in the Merger Agreement or in any instrument delivered pursuant to the Merger Agreement survives the effective time.

**Conduct of Business of MCG Pending Closing**

Except as required by law, with the prior written consent of PFLT (such consent not to be unreasonably withheld, conditioned or delayed), as contemplated or permitted by the Merger Agreement or as set forth in MCG's disclosure letter to PFLT, from the date of the Merger Agreement until the effective time (or earlier termination of the Merger Agreement), MCG has agreed that it will, and will cause its subsidiaries to:

carry on its business in the ordinary course and use reasonable best efforts to preserve intact its business organization;

keep available the services of its current officers and employees; and

maintain in effect all material licenses and permits required to carry on their respective businesses, maintain in effect any exemptive orders or exemptive relief which they have received from the SEC and which are currently in effect and preserve their material business relationships.

In addition, except as required by law, with the prior written consent of PFLT (such consent not to be unreasonably withheld, conditioned or delayed), as contemplated or permitted by the Merger Agreement or as set forth in MCG's

disclosure letter to PFLT, from the date of the Merger Agreement until the effective time (or earlier termination of the Merger Agreement, MCG has agreed that it will not, and will cause its subsidiaries not to, among other restrictions and subject to certain exceptions set forth in the Merger Agreement:

issue, sell or pledge any shares of capital stock of, or other equity interests in, MCG or its subsidiaries;

except pursuant to the MCG's benefit plans, redeem, purchase or otherwise acquire, or propose to redeem, purchase or otherwise acquire, any outstanding MCG Common Stock;

other than in the ordinary course of business, acquire, sell, lease or dispose of any assets that, in the aggregate, are material to MCG and its subsidiaries, taken as a whole;

split, combine, subdivide or reclassify any MCG Common Stock or declare, set aside for payment or pay any dividend (whether in cash, stock or property, or any combination thereof) in respect of any MCG Common Stock or otherwise make any payments to stockholders in their capacity as such;

enter into any new line of business;

other than in the ordinary course of business, redeem, repurchase, prepay, defease, incur or otherwise acquire any indebtedness for borrowed money, enter into any "keep well" or other agreement to

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maintain any financial statement condition of another person or enter into any arrangement have the economic effect of any of the foregoing, in each case, in addition to that incurred as of the date of the Merger Agreement or guarantee any such indebtedness;

make any investment or loan (other than any unfunded commitments existing as of the date of the Merger Agreement) either by purchase of stock or securities or otherwise, contributions to capital, property transfers, or purchase of any property or assets of any other individual, person or other entity (other than a subsidiary);

except as may be required under any MCG's benefit plans or as provided for in the Merger Agreement, grant any increase in, take any action to accelerate the vesting or payment or fund or in any other way secure the payment of, the compensation and benefits of any of MCG's directors, officers, consultants or key employees, enter into any employment or severance agreement with any such director, officer, consultant or key employee, or adopt, terminate or materially amend any of MCG's benefit plans;

incur any capital expenditures;

enter into any contract, agreement, commitment or arrangement whereby the obligation or liability imposed on MCG or any of its subsidiaries under such contract, agreement, commitment or arrangement would exceed \$50,000, or whereby such contract, agreement, commitment or arrangement would otherwise constitute a material contract of MCG, or amend any contract, agreement, commitment or arrangements in existence on the date hereof that, after giving effect to such amendment, would impose an obligation or liability on MCG or any of its subsidiaries under such contract, agreement, commitment or arrangement in excess of \$50,000 or constitute a material contract of MCG;

other than in the ordinary course of business, terminate, cancel, renew or agree to any material amendment of, change in or waiver under any material contract of MCG;

commence or settle any material claim, suite, action or proceeding;

amend the organizational documents of MCG or any of its subsidiaries; or

enter into any contract, agreement, commitment or arrangement to do any of the foregoing.

**Conduct of Business of PFLT Pending Closing**

Except as required by law, with the prior written consent of MCG (such consent not to be unreasonably withheld, conditioned or delayed), as contemplated or permitted by the Merger Agreement or as set forth in PFLT's disclosure letter to MCG, from the date of the Merger Agreement until the effective time (or earlier termination of the Merger Agreement), PFLT has agreed that it will, and will cause its subsidiaries to:

carry on its business in the ordinary course and use reasonable best efforts to preserve intact its business organization;

keep available the services of its current officers and employees; and

maintain in effect all material licenses and permits required to carry on their respective businesses, maintain in effect any exemptive orders or exemptive relief which they have received from the SEC and which are currently in effect and preserve their material business relationships.

In addition, except as required by law, with the prior written consent of MCG (such consent not to be unreasonably withheld, conditioned or delayed), as contemplated or permitted by the Merger Agreement or as set forth in PFLT's disclosure letter to MCG, from the date of the Merger Agreement until the effective time (or earlier termination of the Merger Agreement, PFLT has agreed that it will not, and will cause its subsidiaries not to, among other restrictions and subject to certain exceptions set forth in the Merger Agreement:

issue, sell or pledge any shares of capital stock of, or other equity interests in, PFLT or its subsidiaries, except for (i) issuance of PFLT Common Stock at a price per share at or above its then current net asset value in underwritten offerings for cash and (ii) issuances pursuant to PFLT's dividend reinvestment plan;

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split, combine, subdivide or reclassify any PFLT Common Stock or declare, set aside for payment or pay any dividend (whether in cash, stock or property, or any combination thereof) in respect of any PFLT Common Stock or otherwise make any payments to stockholders in their capacity as such, except for (i) regular dividends in the ordinary course of business consistent with past practice and (ii) special dividends in amounts not to exceed PFLT's undistributed net investment income as of the time of such dividend;

acquire or agree to acquire any business or any corporation, partnership, association or other business organization or division thereof, if such transaction would reasonably be expected to prevent or materially delay consummation of the Merger;

enter into any new line of business;

commence or settle any material claim, suite, action or proceeding; or

enter into any contract, agreement, commitment or arrangement to do any of the foregoing.

**Additional Covenants**

***No Solicitation of Transactions; Change in Recommendation***

MCG agreed that it will not, and will direct each of its representatives to, immediately cease any solicitations, discussions or negotiations with any person with respect to any Acquisition Proposal and promptly request return or destruction of confidential information related thereto.

For purposes of the Merger Agreement, Acquisition Proposal means any inquiry, offer or proposal made by any person or group of persons other than PFLT or any affiliate thereof, relating to (i) any direct or indirect acquisition or purchase, or that could result in ownership, of MCG securities representing 25% or more of the outstanding voting capital stock of MCG or MCG's assets or any tender offer, exchange offer, merger, reorganization, consolidation, share exchange or other business combination that if consummated would result in any person or group of persons beneficially owning 25% or more of the outstanding voting capital stock of MCG or MCG's assets, (ii) a restructuring of MCG in order to operate as an externally managed BDC or (iii) a liquidation of MCG.

Subject to certain qualifications and exceptions outlined below, from the date of Merger Agreement until completion of the Merger or, if earlier, the termination of the Merger Agreement in accordance with its terms, MCG agreed that it will not, and will cause its subsidiaries not to, and will instruct its and its subsidiaries respective officers, directors, employees and other representatives not to:

initiate or solicit or knowingly encourage any inquiries with respect to, or the making of, any Acquisition Proposal;

engage in negotiations or discussions with or provide any information or data to, any person relating to an Acquisition Proposal;



approve, endorse or recommend, or propose publicly to approve, endorse or recommend, any Acquisition Proposal; or

execute or enter into any letter of intent, agreement in principle, merger agreement, acquisition agreement or other similar agreement relating to any Acquisition Proposal (other than certain confidentiality agreements). Notwithstanding anything to the contrary in the Merger Agreement, at any time prior to obtaining the approval of the MCG stockholders required for adoption of the Merger Agreement, in the event that MCG receives a bona fide Acquisition Proposal that is not received in violation of the Merger Agreement, MCG and its board of directors may participate in discussions or negotiations with, or furnish any information to, any person making such Acquisition Proposal and its representatives or potential sources of financing if the MCG's board of

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directors determines in good faith, after consultation with its counsel and financial advisor, that such person is reasonably likely to submit to MCG a Superior Proposal and that failure to take such action would reasonably be expected to be inconsistent with the board of directors' fiduciary duties; provided, however, that, prior to providing any nonpublic information to such person, MCG shall have entered into a confidentiality agreement with such person on terms that are substantially similar to the confidentiality provisions of the confidentiality agreement between MCG and the PFLT Investment Adviser and that any nonpublic information concerning MCG and its subsidiaries provided to such person, to the extent not previously provided to PFLT, is promptly provided to PFLT. In addition, nothing in the Merger Agreement shall restrict MCG from complying with its disclosure obligations with regard to any Acquisition Proposal under applicable law. For purposes of the Merger Agreement, Superior Proposal means any bona fide written Acquisition Proposal received after the date of the Merger Agreement that MCG's board of directors determines in good faith, after consultation with its outside legal and financial advisors, to be reasonably likely to be consummated in accordance with its terms and to be more favorable to MCG and its stockholders from a financial point of view than the transactions contemplated by the Merger Agreement; provided that for purposes of this definition references to 25% in the definition of Acquisition Proposal will be deemed to be references to 50%.

MCG is required to promptly (and in any event within 48 hours) notify PFLT of the receipt by MCG of any Acquisition Proposal, which notice shall include the material terms of and identity of the person(s) making such Acquisition Proposal. MCG will (subject to the fiduciary duties of the board of directors) keep PFLT reasonably informed of the status and material terms and conditions of any such Acquisition Proposal and of any material amendments or proposed material amendments thereto and will promptly notify PFLT of any determination by MCG's board of directors that such Acquisition Proposal constitutes a Superior Proposal.

MCG's board of directors may, at any time prior to obtaining the stockholder approval of the adoption of the Merger Agreement:

approve, endorse or recommend a Superior Proposal or enter into a definitive agreement with respect to a Superior Proposal; or

modify or amend in a manner adverse to PFLT or withdraw the recommendation of the MCG board of directors of the Merger (such action, a change in recommendation), provided that prior to such change in recommendation, MCG's board of directors determines, in good faith (after consultation with its counsel), that the failure to take such action would be inconsistent with the directors' fiduciary duties under applicable law.

MCG may not terminate the Merger Agreement to enter into a definitive agreement with respect to a Superior Proposal unless (i) it notifies PFLT in writing of its intention to take such action at least three business days prior to taking such action, specifying the material terms of any applicable Superior Proposal and identifying the person(s) making such Superior Proposal, (ii) PFLT does not make, after being provided with reasonable opportunity to negotiate with MCG and its representatives, within such three business day period, irrevocable adjustments in the terms and conditions of the Merger Agreement that the MCG board of directors determines, in good faith after consultation with its counsel and financial advisors, is at least as favorable to the its stockholders as such Superior Proposal and (iii) MCG is not in material breach of the non-solicitation provisions of the Merger Agreement.

## ***Proxy Statement; Special Meetings***

MCG, in accordance with applicable law and its organizational documents, will convene a special meeting of its stockholders for purpose of considering the adoption of the Merger Agreement and the approval of the Merger.

PFLT, in accordance with applicable law and its organizational documents, will convene a special meeting of its stockholders for purpose of considering the approval of the issuance of PFLT Common Stock in connection with the transactions contemplated by the Merger Agreement.

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Each of MCG and PFLT will use its reasonable best efforts to obtain the requisite stockholder, subject in the case of MCG, to the occurrence of a change in recommendation.

***Reasonable Best Efforts***

PFLT and MCG have each agreed to use their reasonable best efforts to promptly:

take, or cause to be taken, all actions, and to do, or to cause to be done, and to assist and cooperate with the other parties in doing all things necessary, proper or advisable under applicable law or otherwise to consummate and make effective the transactions contemplated by the Merger Agreement;

obtain from any governmental entities any actions, non-actions, clearances, waivers, consents, approvals, authorizations, licenses, permits or orders required to be obtained by MCG, PFLT or any of their respective subsidiaries in connection with the authorization, execution, delivery and performance of the Merger Agreement and the consummation of the transactions contemplated under the Merger Agreement and obtain from third parties all waivers, consents, approvals and authorizations that are necessary or advisable in connection with the consummation of the transactions contemplated under the Merger Agreement;

make all necessary registrations and filings, and thereafter make any other required submissions, with respect to the Merger Agreement and the Merger required applicable law;

permit the other parties to review any material communication delivered to, and consult with the other party in advance of any meeting or conference with, any governmental entity relating to the transactions contemplated by the Merger Agreement or in connection with any proceeding by a private party relating thereto, and give the other party the opportunity to attend and participate in such meetings and conferences (to the extent permitted by such governmental entity or private party);

avoid the entry of, or have vacated or terminated, any decree, order, or judgment that would restrain, prevent or delay the closing of the Merger, including defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging the Merger Agreement or the consummation of the transactions contemplated hereby; and

execute and deliver any additional instruments necessary to consummate the transactions contemplated by the Merger Agreement.

**Conditions to Closing**

The obligations of MCG, on the one hand, and PFLT, Sub One and Sub Two, on the other hand, to consummate the Merger are subject to satisfaction or waiver of the following conditions:

receipt of the requisite approval from the stockholders of each of MCG and PFLT;

consummation of the Merger shall not then be restrained, enjoined or prohibited by any order, judgment, decree, injunction or ruling of a court of competent jurisdiction or other governmental entity and there shall not be in effect any law deemed applicable to the Merger by any governmental authority that prevents consummation of the Merger; and

the registration statement of which this joint proxy statement and prospectus forms a part shall have become effective and there shall be no stop order suspending its effectiveness.

The obligations of PFLT, Sub One and Sub Two to consummate the Merger are subject to satisfaction or waiver of the following conditions:

(i) the capitalization representations and warranties of MCG are true and accurate (except for any de minimis inaccuracies) both when made and as of the date of the Closing Date as if made at and as of such date (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only

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be true and accurate as of such date or with respect to such period), (ii) the representations and warranties of MCG with respect to authorization of the Merger Agreement, undisclosed liabilities and brokers are true and accurate both when made and as of the Closing Date as if made at and as of such date (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only be true and accurate as of such date or with respect to such period) and (iii) all other representations and warranties of MCG shall be true and accurate in all respects (without giving effect to any material or material adverse effect qualifiers) both when made and as of the Closing Date as if made at and as of such date (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only be true and accurate as of such date or with respect to such period) except where the failure of such representations and warranties to be so true and accurate would not, individually or in the aggregate with all other failures, have a Company Material Adverse Effect;

MCG shall have performed or complied in all material respects with its obligations and covenants under the Merger Agreement required to be performed or complied with at or prior to the closing of the Merger;

PFLT shall have received a certificate to the effect that, to the knowledge of the officer signing such certificate, the conditions set forth in the prior two bullet points shall have been satisfied;

since the date of the Merger Agreement, no facts, changes, events, developments or circumstances shall have occurred, arisen or come into existence or first become known to PFLT, or any worsening thereof (to the extent of such worsening) and which has had or would reasonably be expected to have, individually or in the aggregate with all such other facts, changes, events, developments or circumstances, a Company Material Adverse Effect; and

there shall not be pending any suit, action or proceeding by any governmental authority of competent jurisdiction seeking to, among other things, make illegal, restrain prohibit or delay the making or consummation of the Merger.

The obligations of MCG to consummate the Merger are subject to satisfaction or waiver of the following conditions:

(i) the capitalization representations and warranties of PFLT, Sub One and Sub Two are true and accurate (except for any de minimis inaccuracies) both when made and as of the Closing Date as if made at and as of such date (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only be true and accurate as of such date or with respect to such period), (ii) the representations and warranties of PFLT, Sub One and Sub Two with respect to authorization of the Merger Agreement and brokers are true and accurate both when made and as of the Closing Date as if made at and as of such date (other than those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only be true and accurate as of such date or with respect to such period) and (iii) all other representations and warranties of PFLT, Sub One and Sub Two shall be true and accurate in all respects (without giving effect to any material or material adverse effect qualifiers) both when made and as of the Closing Date as if made at and as of such date (other than those

representations and warranties that address matters only as of a particular date or only with respect to a specific period of time, which representations and warranties need only be true and accurate as of such date or with respect to such period) except where the failure of such representations and warranties to be so true and accurate would not, individually or in the aggregate with all other failures, have a Parent Material Adverse Effect;

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PFLT, Sub One and Sub Two shall have performed or complied in all material respects with their obligations and covenants under the Merger Agreement required to be performed or complied with at or prior to the closing of the Merger;

MCG shall have received a certificate to the effect that, to the knowledge of the officer signing such certificate, the conditions set forth in the prior two bullet points shall have been satisfied; and

since the date of the Merger Agreement, no facts, changes, events, developments or circumstances shall have occurred, arisen or come into existence or first become known to MCG, or any worsening thereof (to the extent of such worsening) and which has had or would reasonably be expected to have, individually or in the aggregate with all such other facts, changes, events, developments or circumstances, a Parent Material Adverse Effect.

## **Publicity**

PFLT and MCG agreed to not issue any press release or make any other public announcement with respect to the Merger Agreement or the transactions contemplated thereby without the prior agreement of the other except as required by law or the listing agreement with a national securities exchange, in which case the party proposing to issue the press release shall use its reasonable efforts to consult in good faith with the other party before making any public announcement.

## **Termination**

The Merger Agreement generally may be terminated:

by the mutual written agreement of MCG and PFLT;

by either MCG or PFLT:

if the Merger shall not have occurred on or prior to January 28, 2016;

if any governmental entity having jurisdiction over MCG, PFLT, Sub One or Sub Two shall have issued an order, decree or ruling or taken any other action, in each case permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the Merger Agreement and such order, decree, ruling or other action shall have become final and nonappealable;

if the approval of the adoption of the Merger Agreement by MCG's stockholders shall not have been obtained at its special meeting of stockholders; or



if the approval of the issuance of shares pursuant to the Merger Agreement by PFLT's stockholders shall not have been obtained at its special meeting of stockholders;

by MCG:

if PFLT, Sub One or Sub Two shall have breached or failed to perform any of its representations, warranties, covenants or agreements set forth in the Merger Agreement, which breach or failure to perform, either individually or in the aggregate, would (i) give rise to the failure of certain closing conditions regarding the absence of a material adverse effect and compliance in all material respects with obligations and covenants under the Merger Agreement and (ii) cannot be or has not been cured, in all material respects, within 20 days after the giving of written notice to PFLT (or, if less than 20 days prior to January 28, 2016, prior to such date); or

prior to obtaining stockholder approval of the adoption of the Merger Agreement, and subject to the terms and conditions of the Merger Agreement, in order to accept a Superior Proposal; or

by PFLT:

if MCG shall have breached or failed to perform any of its representations, warranties, covenants or agreements set forth in the Merger Agreement, which breach or failure to perform, either individually or in the aggregate, would (i) give rise to the failure of certain closing conditions

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regarding the absence of a material adverse effect and compliance in all material respects with obligations and covenants under the Merger Agreement and (ii) cannot be or has not been cured, in all material respects, within 20 days after the giving of written notice to MCG (or, if less than 20 days prior to January 28, 2016, prior to such date); or

if MCG's board of directors shall have effected a change in recommendation.

### **Effect of Termination and Termination Fee**

In the event of a termination of a termination of the Merger Agreement, the Merger Agreement shall terminate and become void and have no effect, and the transactions contemplated by the Merger Agreement shall be terminated without further action by the parties.

MCG has agreed to pay a termination fee of \$7.0 million if the Merger Agreement is terminated (i) by MCG in order to accept a Superior Proposal, (ii) by PFLT if MCG's board of directors effects a change in recommendation or (iii) by either MCG or PFLT (a) (I) upon the passage of January 28, 2016 or (II) failure of MCG to secure stockholder approval for the adoption of the Merger Agreement, if in either case there is an Acquisition Proposal (for a transaction involving 50% of MCG's capital stock) which is not withdrawn prior to termination of the Merger Agreement or failure of MCG to secure stockholder approval for the adoption of the Merger Agreement, as the case may be, and (b) within 12 months of termination MCG enters into a definitive agreement with respect to a transaction pursuant to an Acquisition Proposal (for a transaction involving 50% of MCG's capital stock), which transaction is later consummated.

PFLT has agreed to pay a termination fee of \$7.0 million if the Merger Agreement is terminated by either MCG or PFLT due to the failure of PFLT to secure stockholder approval for the issuance of PFLT Common Stock pursuant to the Merger Agreement.

In circumstances in which a termination fee is payable by MCG, receipt of the termination fee will be the sole and exclusive remedy for money damages of PFLT, Sub One and Sub Two against MCG and shall in all cases be the sole and exclusive remedy against any of MCG's officers, employees, stockholders, representatives, agents or advisors. In circumstances in which a termination fee is payable by PFLT, receipt of the termination fee will be the sole and exclusive remedy for money damages of MCG against PFLT, Sub One and Sub Two and shall in all cases be the sole and exclusive remedy against any of PFLT's, Sub One's or Sub Two's officers, employees, stockholders, members, representatives, agents or advisors.

### **Availability of Specific Performance**

Each party to the Merger Agreement has agreed that, in certain circumstances, a non-breaching party shall be entitled to seek specific performance to enforce the observance and performance of the covenants and obligations in the Merger Agreement and injunctive relief without necessity of posting bond or other security. In addition, MCG is entitled to seek specific performance where PFLT is obligated to consummate the Merger and the Merger has not been consummated and the approval of PFLT's stockholders has been obtained.

### **Expenses**

All costs and expenses shall be paid by the party incurring such costs and expenses, regardless of whether the Merger is consummated, except that fees paid in respect of any regulatory filing shall be borne by PFLT and all fees paid in respect of the preparation, filing and mailing of the registration statement of which this joint proxy statement and

PFLT prospectus forms a part and the conduct of the special meetings shall be shared equally among the parties. A portion of the costs borne by MCG related to the Merger will be indirectly reimbursed by the PFLT Investment Adviser in the form of cash consideration payable to MCG stockholders.

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**ACCOUNTING TREATMENT**

The Merger will be accounted for under the asset acquisition method of accounting by PFLT in accordance with ASC 805-50, *Business Combinations Related Issues*. Under asset acquisition accounting, acquiring assets in groups not only requires ascertaining the cost of the asset (or net assets), but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. Per ASC 805-50-30-1, assets are recognized based on their cost to the acquiring entity, which generally includes transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets carrying amounts on the acquiring entity's records. ASC 805-50-30-2 goes on to say asset acquisitions in which the consideration given is cash are measured by the amount of cash paid. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on the cost to the acquiring entity or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measured.

The cost of the group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair values of net identifiable assets acquired other than non-qualifying assets (for example cash) and does not give rise to goodwill.

The final allocation of the purchase price will be determined after the Merger is completed and after completion of a final analysis to determine the estimated relative fair values of MCG's assets and liabilities. Accordingly, the final adjustments may be materially different from the pro forma adjustments presented in this joint proxy statement and prospectus. Increases or decreases in the estimated fair values of the net assets, commitments, and other items of MCG as compared to the information shown in this joint proxy statement and prospectus may change.

**Table of Contents****CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER**

*The following discussion summarizes certain material U.S. federal income tax consequences of the Merger, including an investment in PFLT Common Stock, that are applicable to you as an MCG stockholder. It is based on the Code, applicable U.S. Treasury regulations, judicial authority and administrative rulings and practice, all as of the date of this joint proxy statement and prospectus and all of which are subject to change, including changes with retroactive effect. The discussion below does not address any state, local or foreign tax consequences of the Merger. Your tax treatment may vary depending upon your particular situation. You also may be subject to special rules not discussed below if you are a certain kind of MCG stockholder, including, but not limited to: an insurance company; a tax-exempt organization; a financial institution or broker-dealer; a person who is neither a citizen nor resident of the United States or entity that is not organized under the laws of the United States or a political subdivision thereof; a holder of MCG Common Stock as part of a hedge, straddle or conversion transaction; a person or entity that does not hold MCG Common Stock as a capital asset at the time of the Merger; or an entity taxable as a partnership for U.S. federal income tax purposes (or a holder of interests in such a partnership).*

*For purposes of this discussion, a U.S. stockholder is a beneficial owner of PFLT Common Stock who is for U.S. federal income tax purposes: (1) a citizen or individual resident of the United States; (2) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia; (3) a trust, if a court within the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or (4) an estate the income of which is subject to U.S. federal income taxation regardless of its source. A non-U.S. stockholder is a beneficial owner of PFLT Common Stock who is for U.S. federal income tax purposes a person other than: (1) a U.S. stockholder and (2) a partnership.*

*PFLT has not requested, and will not request, an advance ruling from the Internal Revenue Service, or the IRS, as to the U.S. federal income tax consequences of the Merger or any related transactions. The IRS could adopt positions contrary to those discussed below and such positions could be sustained. You are urged to consult with your own tax advisors and financial planners as to the particular tax consequences of the Merger to you, including the applicability and effect of any state, local or foreign laws and the effect of possible changes in applicable tax laws.*

**Tax Consequences of the Merger**

Neither PFLT nor MCG will receive an opinion as to the tax consequences of the Merger for PFLT, MCG or MCG's stockholders. PFLT and MCG will treat the Merger as a taxable exchange not qualifying as a reorganization, within the meaning of Section 368(a) of the Code and therefore generally:

no gain or loss will be recognized by PFLT or holders of PFLT Common Stock as a result of the Merger;

following the Second Merger, PFLT's tax basis in the limited liability company interests of Sub Two will equal the amount of cash plus the fair market value of any other consideration paid to the holders of MCG Common Stock, plus certain expenses incurred by PFLT in connection with consummating the Merger;

PFLT's holding period in its Sub Two limited liability company interests will begin on the day following the completion of the Merger;

since the Merger will be a taxable event for holders of MCG Common Stock as of the date of the Merger, such holders of MCG Common Stock will recognize gain or loss upon the exchange of their MCG Common Stock for PFLT Common Stock and cash equal to the difference between the fair market value of the PFLT Common Stock and the amount of cash received by the MCG stockholder and the MCG stockholder's tax basis in his, her or its MCG Common Stock. Such gain or loss

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generally will be a capital gain or loss, and will be long-term capital gain or loss if, as of the effective time of the Merger, the holding period for the MCG Common Stock is greater than one year. U.S. federal backup withholding tax may be imposed on the PFLT Common Stock and cash received by a holder of MCG Common Stock tendering such MCG Common Stock pursuant to the Merger;

the tax basis in any PFLT Common Stock received by a holder of MCG Common Stock pursuant to the Merger will equal the fair market value of the PFLT Common Stock received by such holder on the date of its acquisition; and

an MCG stockholder's holding period in any PFLT Common Stock received pursuant to the Merger will begin on the day following the date of its acquisition.

### **U.S. Federal Income Taxation of an Investment in PFLT Common Stock**

The following discussion summarizes the U.S. federal income taxation of an investment in PFLT Common Stock. This discussion is not intended as a substitute for careful tax planning. You should consult your tax advisor about your specific tax situation.

#### **Election to be Taxed as a RIC**

PFLT has elected to be taxed, and intends to qualify each taxable year to maintain its election to be taxed, as a RIC under Subchapter M of the Code. To maintain its RIC tax election, PFLT must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements (as described below). In addition, each taxable year, PFLT must distribute as dividends an amount at least equal to 90% its investment company taxable income out of the assets legally available for distribution to its shareholders, or the Annual Distribution Requirement. Although not required for PFLT to maintain its RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, PFLT must distribute dividends in respect of each calendar year to its shareholders of an amount at least equal to the sum of (1) 98% of its net ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of the sum of its capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year and (3) any net ordinary income and capital gain net income for preceding calendar years that were not distributed during such calendar years and on which PFLT paid no U.S. federal income tax, or the Excise Tax Avoidance Requirement. See Risk Factors Risks Relating to PFLT PFLT may be subject to certain corporate-level taxes regardless of whether PFLT continues to qualify as a RIC. In addition, although PFLT 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, PFLT may retain and be subject to excise tax on such net capital gains or ordinary income to provide it with additional liquidity.

In order to qualify as a RIC for federal income tax purposes, PFLT must:

maintain an election to be treated as a BDC under the 1940 Act at all times during the taxable year;

derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, net income from certain qualified

publicly traded partnerships or other income derived with respect to its business of investing in such stock or securities, or the 90% Income Test; and

diversify its holdings, or the Diversification Tests, so that at the end of each quarter of the taxable year:

at least 50% of the value of its assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer neither represents more than 5% of the value of its assets nor more than 10% of the outstanding voting securities of the issuer; and



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no more than 25% of the value of its assets is invested in the securities, other than U.S. Government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by PFLT and that are engaged in the same or similar or related trades or businesses or in certain qualified publicly traded partnerships.

### **Taxation as a RIC**

If PFLT qualifies as a RIC, and satisfies the Annual Distribution Requirement, then it will not be subject to federal income tax on the portion of its investment company taxable income and net capital gain it distributes as dividends to its stockholders. In addition, upon satisfying these requirements, PFLT will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) as dividends to its stockholders.

PFLT may be required to recognize taxable income in circumstances in which it does not receive cash. For example, if PFLT holds debt obligations that are treated under applicable tax rules as having OID (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), it must include in income each taxable year a portion of the OID that accrues over the life of the obligation, regardless of whether cash representing such income is received by PFLT in the same taxable year. Because any OID accrued will be included in its investment company taxable income in the taxable year of accrual, PFLT may be required to make a distribution to its stockholders in order to satisfy the Annual Distribution Requirement, even though it will not have received any corresponding cash amount.

At certain times, PFLT may invest in below investment grade debt instruments. Investments in these types of debt instruments may present special tax issues for PFLT. U.S. federal income tax rules are not entirely clear about issues such as when PFLT may cease to accrue interest, OID or market discount, when and to what extent deductions may be taken for bad debts or worthless debt instruments, how payments received on debt instruments in default should be allocated between principal and income, and whether exchanges of debt instruments in a bankruptcy or workout context are taxable events. PFLT will address these and other issues to the extent necessary in connection with its intended continued satisfaction of both the Annual Distribution Requirement and the Excise Tax Avoidance Requirement as well as its intended continued qualification as a RIC.

Because any OID or other amounts accrued will be included in PFLT's investment company taxable income for the year of the accrual, PFLT may be required to make a distribution to its stockholders in order to satisfy the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, even though PFLT will not have received any corresponding cash amount. As a result, PFLT may have difficulty meeting the Annual Distribution Requirement necessary to qualify for and maintain RIC tax treatment under Subchapter M of the Code. In such case, PFLT may need to sell some of its investments at times and/or at prices not considered advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If PFLT is not able to obtain cash from other sources, PFLT may fail to qualify for or maintain RIC tax treatment and thus become subject to corporate-level income tax.

Although PFLT does not presently expect to do so, it is authorized to borrow funds and to sell assets in order to satisfy its Annual Distribution Requirement or the Excise Tax Avoidance Requirement. However, under the 1940 Act, PFLT is not permitted to make distributions to its stockholders while its own debt instruments and other senior securities are outstanding unless certain asset coverage ratios are met. Moreover, PFLT's ability to dispose of assets to meet its distribution requirements may be limited by (1) the illiquid nature of its portfolio and/or (2) other requirements relating to its status as a RIC, including the Diversification Tests. If PFLT disposes of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, it may make such dispositions at times that, from an investment standpoint, are not advantageous.

A portfolio company in which PFLT may invest could face financial difficulties that could require PFLT to work-out, modify or otherwise restructure its investment in the portfolio company. Any such transaction could, depending upon the specific terms of the transaction, result in unusable capital losses and future non-cash

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income. Any such transaction could also result in PFLT's receipt of assets that gives rise to non-qualifying income for purposes of the 90% Income Test or otherwise would not count toward satisfying the Diversification Requirements.

Some of the income that PFLT might otherwise earn, such as fees for providing managerial assistance, certain fees earned with respect to PFLT's investments, income recognized in a work-out or restructuring of a portfolio investment, or income recognized from an equity investment in an operating partnership, may not satisfy the 90% Income Test. To manage the risk that such income might disqualify PFLT as a RIC for failure to satisfy the 90% Income Test, one or more subsidiary entities treated as U.S. corporations for U.S. federal income tax purposes may be employed to earn such income and (if applicable) hold the related asset. Such subsidiary entities will be required to pay U.S. federal income tax on their earnings, which ultimately will reduce the yield to holders of PFLT Common Stock on such fees and income.

### **Failure to Qualify as a RIC**

If PFLT fails to satisfy the Annual Distribution Requirement or fails to qualify as a RIC in any taxable year, unless certain cure provisions apply, PFLT will be subject to tax in that year on all of its taxable income, regardless of whether it makes any distributions to its stockholders. In that case, all of its income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to its stockholders. In contrast, assuming PFLT qualifies as a RIC, its corporate-level federal income tax should be substantially reduced or eliminated.

If PFLT is unable to maintain its status as a RIC, PFLT would be subject to tax on all of its taxable income at regular corporate rates. PFLT would not be able to deduct distributions to stockholders, nor would distributions be required to be made. Distributions would generally be taxable to PFLT stockholders as ordinary distribution income to the extent of its current and accumulated earnings and profits. Subject to certain limitations under the Code, distributions paid by PFLT to corporate stockholders would be eligible for the dividends received deduction. Distributions in excess of its current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis in its PFLT Common Stock, and any remaining distributions would be treated as a capital gain. Moreover, if PFLT fails to qualify as a RIC in any taxable year, to qualify again to be subject to tax as a RIC in a subsequent taxable year, PFLT would be required to distribute its earnings and profits attributable to any of its non-RIC taxable years as dividends to its stockholders. In addition, if PFLT fails to qualify as a RIC for a period greater than two consecutive taxable years, to qualify as a RIC in a subsequent taxable year PFLT may be subject to regular corporate tax on any net built-in gains with respect to certain of its assets (that is, the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if PFLT had sold the property at fair market value at the end of the taxable year) that it elects to recognize on requalification or when recognized over the next five taxable years.

The remainder of this discussion assumes that PFLT qualify as a RIC and have satisfied the Annual Distribution Requirement.

### **Taxation of U.S. Stockholders**

This subsection applies to U.S. stockholders only. Persons who are not U.S. stockholders should refer to Taxation of Non-U.S. Stockholders, below.

Distributions by PFLT, including distributions pursuant to a dividend reinvestment plan or where stockholders can elect to receive cash or stock, generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of its investment company taxable income (which is, generally, its ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S.

stockholders to the extent of its current or accumulated earnings and profits, whether paid in cash or reinvested in additional PFLT Common Stock. To the extent such distributions paid by PFLT to

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non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, properly designated by PFLT as qualified dividend income, such distributions generally will be eligible for a reduced tax rate depending on whether a PFLT common stockholder's income does not exceed certain threshold amounts and if certain holding period requirements are satisfied. In this regard, it is anticipated that distributions paid by PFLT will generally not be attributable to dividends and, therefore, generally will not qualify for the reduced maximum rate. Distributions of its net capital gains (which is generally its realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by PFLT as capital gain distributions will be taxable to a U.S. stockholder as long-term capital gains at a reduced rate in the case of individuals, trusts or estates (i.e., U.S. non-corporate stockholders), regardless of the U.S. stockholder's holding period for his, her or its PFLT Common Stock and regardless of whether paid in cash or reinvested in additional PFLT Common Stock. Distributions in excess of PFLT's earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's PFLT Common Stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

PFLT may distribute its PFLT Common Stock as a dividend of its taxable income, and a stockholder could receive a portion of the distributions declared and distributed by it in shares of PFLT Common Stock with the remaining amount in cash. A PFLT common stockholder will be considered to have recognized dividend income generally equal to the fair market value of the stock paid by PFLT plus cash received with respect to such dividend. The total dividend declared would be taxable income to a PFLT common stockholder even though such stockholder may only receive a relatively small portion of the dividend in cash to pay any taxes due on the dividend. PFLT has not yet elected to distribute stock as a dividend but reserves the right to do so. Any PFLT Common Stock received by a U.S. stockholder in such a distribution will have a holding period for tax purposes commencing on the day following the day on which such PFLT Common Stock is credited to such U.S. stockholder's account.

Although PFLT currently intends to distribute long-term capital gains, if any, at least annually, PFLT may in the future decide to retain some or all of its long-term capital gains, but designate the retained amount as a deemed distribution. In that case, among other consequences, PFLT will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by PFLT. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder's tax basis for his, her or its PFLT Common Stock. Since PFLT expects to pay tax on any retained capital gains at its regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for U.S. federal income tax. A stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes PFLT paid. In order to use the deemed distribution approach, PFLT must provide written notice to its stockholders prior to the expiration of 60 days after the close of the relevant taxable year. PFLT cannot treat any of its investment company taxable income as a deemed distribution.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain distributions paid for that year, PFLT may, under certain circumstances, elect to treat a distribution that is paid during the following taxable year as if it had been paid during the taxable year in question. If PFLT makes such an election, the U.S. stockholder will still be treated as receiving the distribution in the taxable year in which the distribution is made. However, any distribution declared by PFLT in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during

January of the following calendar year, will be treated as if it had been received by its U.S. stockholders on December 31 of the calendar year in which the distribution was declared.

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If an investor purchases shares of PFLT Common Stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it represents a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of PFLT Common Stock. Any gain arising from such sale or disposition generally will be treated as capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of its PFLT Common Stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain distributions received or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of its PFLT Common Stock may be disallowed if other shares of its PFLT Common Stock are purchased (whether through reinvestment of dividends or other distributions or otherwise) within 30 days before or after the disposition.

In general, U.S. non-corporate stockholders currently are subject to a maximum U.S. federal income tax rate of either 15% or 20% (depending on whether the stockholder's income exceeds certain threshold amounts) on their net capital gain, i.e., the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in its shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a taxable year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each taxable year; any net capital losses of a non-corporate stockholder in excess of \$3,000 generally may be carried forward and used in subsequent taxable years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a taxable year, but may carry back such losses for three taxable years or carry forward such losses for five taxable years.

A 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from PFLT and net gains from redemptions or other taxable dispositions of its shares) of U.S. individuals and on the undistributed net investment income of certain estates and trusts to the extent that such person's modified adjusted gross income (in the case of an individual) or adjusted gross income (in the case of an estate or trust) exceeds certain threshold amounts.

PFLT (or if a U.S. stockholder holds its shares through an intermediary, such intermediary) will provide information to its U.S. stockholders, as promptly as possible after the end of each calendar year, detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the IRS (including the amount of distributions, if any, eligible for the preferential rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation. Distributions distributed by PFLT generally will not be eligible for the distributions-received deduction or the preferential rate applicable to qualifying distributions.

The Code requires reporting of adjusted cost basis information for covered securities, which generally include shares of a RIC acquired after January 1, 2012, to the IRS and to taxpayers. Stockholders should contact their financial intermediaries with respect to reporting of cost basis and available elections for their accounts.

A U.S. stockholder (other than an exempt recipient, including a C corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to U.S. federal income tax withholding ( backup withholding ) at a rate of 28% from all taxable distributions to any U.S. stockholder (1) who fails to furnish a correct

taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the IRS notifies a withholding agent that such stockholder has failed to

properly report certain interest and distribution income to the IRS and to respond to notices to that effect. An



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individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's U.S. federal income tax liability and may entitle such stockholder to a refund, provided that proper information is timely provided to the IRS.

### **Taxation of Non-U.S. Stockholders**

This subsection applies to Non-U.S. stockholders only. Persons who are U.S. stockholders should refer to Taxation of U.S. Stockholders, above.

Whether an investment in the shares of PFLT Common Stock is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares of PFLT Common Stock by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should therefore consult their tax advisers before investing in PFLT Common Stock.

Distributions of its investment company taxable income to Non-U.S. stockholders (including interest income and net short-term capital gain) are expected to be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of its current and accumulated earnings and profits. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, PFLT will not be required to withhold U.S. federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons. Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisors.

In addition, under prior law applicable to taxable years of RICs beginning before January 1, 2015 with respect to certain distributions made by RICs to Non-U.S. Stockholders, no withholding was required and the distributions generally were not subject to U.S. federal income tax if (i) the distributions were properly designated in a notice timely delivered to PFLT stockholders as interest-related dividends or short-term capital gain dividends, (ii) the distributions were derived from sources specified in the Code for such dividends and (iii) certain other requirements were satisfied. No assurance can be given as to whether legislation will be enacted to extend the application of this provision to taxable years of RICs beginning on or after January 1, 2015.

Actual or deemed distributions of its net long-term capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of its PFLT Common Stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless, (i) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States or (ii) in the case of an individual stockholder, the stockholder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or the receipt of the distributions or gains and certain other conditions are met.

Effective July 1, 2014, withholding agents are required to withhold U.S. tax (at a 30% rate) on payments of taxable dividends and (effective January 1, 2017) redemption proceeds and certain capital gain dividends made to certain non-U.S. entities that fail to comply (or be deemed compliant) with extensive new reporting and withholding requirements designed to inform the U.S. Department of the Treasury of U.S.-owned foreign investment accounts. Stockholders may be requested to provide additional information to the withholding agents to enable the withholding agents to determine whether withholding is required.

If PFLT distributes its net capital gains in the form of deemed rather than actual distributions (which PFLT may do in the future), a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the stockholder's allocable share of the tax PFLT pays on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate Non-U.S. stockholder,

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distributions (both actual and deemed), and gains realized upon the sale of its PFLT Common Stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of U.S. federal income tax on distributions unless the Non-U.S. stockholder provides PFLT or the distribution paying agent with an IRS Form W-8BEN, IRS Form W-8BEN-E, or an acceptable substitute form, or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. stockholders may also be subject to U.S. estate tax with respect to their investment in PFLT Common Stock.

Non-U.S. persons should consult their own tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares of PFLT Common Stock.

**Table of Contents****MARKET PRICE, DIVIDEND AND DISTRIBUTION INFORMATION**

PFLT Common Stock trades on NASDAQ under the symbol PFLT and MCG Common Stock trades on NASDAQ under the symbol MCGC. MCG Common Stock and PFLT Common Stock have historically traded at prices both above and below their respective NAVs.

The following table sets forth, for certain periods, the NAV per share of PFLT and MCG Common Stock, the range of high and low closing sales prices of PFLT and MCG Common Stock, the closing sales price as a premium or (discount) to NAV per share and the distributions per share declared by MCG and PFLT. On May 6, 2015, the last reported closing sales price of PFLT Common Stock on NASDAQ was \$14.30 per share, which was equal to the NAV per share reported by PFLT as of March 31, 2015. On May 6, 2015, the last reported closing sales price of MCG Common Stock on NASDAQ was \$4.60 per share, which represented a premium of approximately 16% to the NAV per share reported by MCG as of March 31, 2015.

**PFLT**

Period	NAV (1)	High	Low	Premium / Premium Closing Sales Price (Discount) / of High Sales(Discount) Price to Price to NAV NAV (2) (2)		Distributions Declared
				to NAV (2)	of Low Sales Price to NAV (2)	
<b>Fiscal Year Ending September 30, 2015</b>						
Third quarter (as of May 6, 2015)	\$ N/A	\$ 14.33	\$ 13.96	N/A%	N/A%	\$ 0.1900 <sup>(3)</sup>
Second quarter	14.30	14.16	13.25	(1)	(7)	0.2750
First quarter	14.16	14.23	12.98		(8)	0.2700
<b>Fiscal Year Ended September 30, 2014</b>						
Fourth quarter	14.40	14.39	13.75		(5)	0.2700
Third quarter	14.52	14.29	13.61	(2)	(6)	0.2700
Second quarter	14.46	14.27	13.51	(1)	(7)	0.2700
First quarter	14.24	13.93	13.14	(2)	(8)	0.2675
<b>Fiscal Year Ended September 30, 2013</b>						
Fourth quarter	14.10	14.60	13.01	4	(8)	0.2625
Third quarter	13.98	14.90	13.82	7	(1)	0.2625
Second quarter	14.10	14.43	12.94	2	(8)	0.2550
First quarter	13.99	13.30	12.35	(5)	(12)	0.2475

(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 NAV shown are based on outstanding shares at the end of each period.

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

(3)

Includes a distribution of \$0.0950 per share payable on June 1, 2015 to PFLT stockholders of record as of May 20, 2015.

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Period	NAV <sup>(1)</sup>	Closing Sales Price		Premium / (Discount) of High Sales	Premium / (Discount) of Low Sales	Distributions Declared
		High	Low	Price to NAV <sup>(2)</sup>	Price to NAV <sup>(2)</sup>	
<b>Fiscal Year Ending December 31, 2015</b>						
Second quarter (as of May 6, 2015)	\$ N/A	\$ 4.62	\$ 4.02	N/A%	N/A%	\$
First quarter	4.75	4.02	3.75	(15)	(21)	
<b>Fiscal Year Ended December 31, 2014</b>						
Fourth quarter	4.69	3.95	3.03	(16)	(35)	
Third quarter	4.48	4.08	3.52	(9)	(21)	0.050
Second quarter	4.42	3.92	3.24	(11)	(27)	0.070
First quarter	4.37	4.75	3.59	9	(18)	0.125
<b>Fiscal Year Ended December 31, 2013</b>						
Fourth quarter	4.74	5.32	4.40	12	(7)	0.125
Third quarter	5.10	5.49	4.89	8	(4)	0.125
Second quarter	5.18	5.32	4.57	3	(12)	0.125
First quarter	5.10	5.00	4.47	(3)	(14)	0.125

(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 NAV shown are based on outstanding shares at the end of each period.

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

In order to qualify as a RIC and to not be subject to corporate-level tax on income, PFLT is required, under Subchapter M of the Code, to annually distribute at least 90% of the sum of its 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 PFLT to maintain its RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, PFLT must distribute during each calendar year an amount generally at least equal to the sum of (1) 98% of its net ordinary income for the calendar year, (2) 98.2% of its capital gain net income (i.e., the excess, if any, of capital gains over capital losses) for the one-year period ending on October 31 of the calendar year and (3) the sum of any net ordinary income plus capital gain net income for preceding years that were not distributed during such calendar years and on which PFLT paid no U.S. federal income tax. In addition, although PFLT 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, PFLT has retained and may continue to retain such net capital gains or net ordinary income to provide it with additional liquidity.

PFLT maintains an opt out dividend reinvestment plan for its common stockholders. As a result, if PFLT declares a dividend or other distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of PFLT Common Stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. See PFLT Dividend Reinvestment Plan.



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**BUSINESS OF PFLT**

**Pennant Park Floating Rate Capital Ltd.**

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

PFLT believes that Floating Rate Loans to U.S. middle-market companies offer attractive risk adjusted returns due to a limited amount of capital available for such companies and the potential for rising interest rates. PFLT uses the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. PFLT 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. PFLT's debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

Under normal market conditions, PFLT generally expects that at least 80% of the value of its Managed Assets will be invested in Floating Rate Loans and other instruments bearing a variable-rate of interest. PFLT generally expects that senior secured loans, or first lien loans, will represent at least 65% of its overall portfolio. PFLT also generally expects to invest up to 35% of its 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. PFLT's investment size may generally range between \$1 million and \$15 million, on average, although PFLT expects that this investment size will vary proportionately with the size of PFLT's capital base.

PFLT's 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 it makes. PFLT has used, and expects to continue to use, the Credit Facility, proceeds from the rotation of its portfolio and proceeds from public and private offerings of securities to finance its investment objectives.

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

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

**The PFLT Investment Adviser and PFLT Administrator**

PFLT utilizes the investing experience and contacts of the PFLT Investment Adviser in developing what it believes is an attractive and diversified portfolio. The senior investment professionals of the PFLT Investment Adviser have worked together for many years and average over 25 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, PFLT's senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. PFLT believes this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides PFLT with



access to substantial investment opportunities across the capital markets.

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The PFLT 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 the PFLT Investment Adviser's inception in 2007, it has raised approximately \$2.4 billion in debt and equity capital and has invested \$4.4 billion in 360 companies with 145 different financial sponsors through its managed funds.

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

## **Market Opportunity**

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

**PFLT believes middle-market companies have faced difficulty in raising debt through the capital markets.** Many middle-market companies look to raise funds by issuing high-yield bonds. PFLT believes this approach to financing has become more difficult from time to time to the extent institutional investors seek to invest in larger, more liquid offerings. PFLT believes this has made it harder for middle-market companies to raise funds by issuing high-yield securities from time to time.

**PFLT believes middle-market companies have faced difficulty raising debt in private markets.** From time to time, banks, finance companies, hedge funds and CLO funds have, and may again, withdraw capital from the middle-market, resulting in opportunities for alternative funding sources.

**PFLT believes that credit market dislocation for middle-market companies improves the risk-adjusted returns of PFLT's investments.** From time to time, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, PFLT believes there is less competition in PFLT's market, more conservative capital structures, higher yields and stronger covenants.

**PFLT believes 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.** PFLT expects 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 PFLT believes that its capital is well-positioned to partner with such equity investors.

**PFLT believes there is substantial supply of opportunities resulting from maturing loans that seek refinancing.** A high volume of financings will come due in the next few years. Additionally, PFLT believes 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. PFLT believes the combination of strong demand by middle-market companies and from time to time the reduced supply of credit described above should increase lending opportunities for PFLT. PFLT believes this supply of opportunities coupled with a lack of demand offers attractive risk-adjusted returns to investors.

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### **Competitive Advantages**

PFLT believes that it has the following competitive advantages over other capital providers to middle-market companies:

#### ***a) Experienced Management Team***

The senior investment professionals of the PFLT Investment Adviser have worked together for many years and average over 25 years of experience in mezzanine lending, leveraged finance, distressed debt and private equity businesses. These senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. PFLT believes 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, underwriting capabilities and more extensive ongoing monitoring are required by the lender.

#### ***b) Disciplined Investment Approach with Strong Value Orientation***

PFLT employs a disciplined approach in selecting investments that meet the long-standing, consistent value-oriented investment criteria employed by the PFLT Investment Adviser. PFLT's value-oriented investment philosophy focuses on preserving capital and ensuring that investments have an appropriate return profile in relation to risk. When market conditions make it difficult for PFLT to invest according to its criteria, PFLT is highly selective in deploying its capital. PFLT believes this approach continues to enable it to build an attractive investment portfolio that meets its return and value criteria over the long-term.

PFLT believes it is critical to conduct extensive due diligence on investment targets. In evaluating new investments PFLT, through the PFLT Investment Adviser, conducts a rigorous due diligence process that draws from the PFLT Investment Adviser's experience, industry expertise and network of contacts. Among other things, PFLT's 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 of PFLT Investment Selection Criteria for more information.

In addition to engaging in extensive due diligence, the PFLT 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 the PFLT Investment Adviser's Research Capability and Established Network***

The management team of the PFLT Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that PFLT believes to enable it to evaluate investment opportunities effectively in numerous industries, as well as provide PFLT access to substantial information concerning those industries. PFLT identifies potential investments both through active origination and through

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dialogue with numerous financial sponsors, management teams, members of the financial community and corporate partners with whom the professionals of the PFLT Investment Adviser have long-term relationships.

### ***d) Flexible Transaction Structuring***

PFLT is flexible in structuring investments and tailoring investments to meet the needs of a portfolio company while also generating attractive risk-adjusted returns. PFLT can invest in all parts of a capital structure and the PFLT Investment Adviser has extensive experience in a wide variety of securities for leveraged companies throughout economic and market cycles.

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

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

## **Competition**

PFLT's 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, PFLT believes that from time to time there has been a reduction in the amount of debt capital available to middle-market companies. PFLT believes this has resulted in a less competitive environment for making new investments.

Many of PFLT's competitors are substantially larger and have considerably greater financial, technical and marketing resources than PFLT does. For example, PFLT believes some competitors have a lower cost of funds and access to funding sources that are not available to it. In addition, some of PFLT's 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 PFLT. Furthermore, many of PFLT's competitors are not subject to the regulatory restrictions that the 1940 Act imposes on PFLT as a BDC. See [Risk Factors](#) [Risks Relating to PFLT's Business and Structure](#) [PFLT operates in a highly competitive market for investment opportunities](#) for more information.

## **Leverage**

As of March 31, 2015, PFLT maintained a \$200 million Credit Facility, which matures in May 2018, with the Lenders. During the Credit Facility's revolving period, which extends to May 2016, it bears interest at LIBOR plus 200 basis points, and after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years. The Credit Facility is secured by all of the assets held by Funding I, under which PFLT had \$117.3 million outstanding with an annual current interest rate of 2.18%, excluding the undrawn commitment fee of 0.50%, as of March 31, 2015. PFLT believes that its capital resources provide it with the flexibility to take advantage of market opportunities when they arise. PFLT's use of leverage, as calculated under the asset coverage ratio of the 1940 Act, may generally range between 70% and 90% of PFLT's net assets, or 40% and 50% of its Managed Assets. PFLT cannot assure investors that its leverage will remain within the range. The amount of leverage that will be employed will depend on PFLT's assessment of the market and other factors at the time of any proposed borrowing. See

Management's Discussion and Analysis of Financial Condition and Results of Operations of PFLT for more information.

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**INVESTMENT OBJECTIVES AND POLICIES OF PFLT**

**Investment Policy Overview**

PFLT seeks to create a diversified portfolio primarily of Floating Rate Loans by generally targeting an investment size of \$1 million to \$15 million in securities, on average, of middle-market companies. PFLT expects this investment size to vary proportionately with the size of its capital base. PFLT generally expects that senior secured loans, or first lien loans, will represent at least 65% of its overall portfolio. PFLT also generally expects to invest up to 35% of its 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. The companies in which PFLT invests are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, PFLT believes that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies. In addition, PFLT expects its debt investments to range in maturity from three to ten years.

Over time, PFLT expects that its portfolio will continue to consist primarily of Floating Rate Loans in qualifying assets such as private or thinly traded or small market-capitalization, U.S. middle-market public companies. In addition, PFLT may invest up to 30% of its portfolio in non-qualifying assets. See [Regulation of PFLT Qualifying Assets](#) for more information. These non-qualifying assets may include investments in public companies whose securities are not thinly traded or do not have a market capitalization of less than \$250 million, securities of middle-market companies located outside of the United States and investment companies as defined in the 1940 Act. Moreover, PFLT may acquire investments in the secondary market. See [Investment Selection Criteria](#) for more information.

PFLT's board of directors has the authority to modify or waive certain of its operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act PFLT may not change the nature of its business so as to cease to be, or withdraw its election as, a BDC. PFLT cannot predict the effect any changes to its current operating policies and strategies would have on its business, operating results and value of its stock. Nevertheless, the effects of changes to PFLT's operating policies and strategies may adversely affect its business, its ability to make distributions and the value of its stock.

**Senior Secured Debt**

Structurally, senior secured debt (which PFLT defines to include first lien debt) ranks senior in priority of payment to mezzanine debt and equity, and benefits from a senior security interest in the assets of the borrower. As such, other creditors rank junior to PFLT's investments in these securities in the event of insolvency. Due to its lower risk profile and often more restrictive covenants as compared to mezzanine debt, senior secured debt generally earns lower return than mezzanine debt. In some cases senior secured lenders receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. PFLT evaluates these investment opportunities on a case-by-case basis.

**Mezzanine Debt**

Structurally, mezzanine debt (which PFLT defines to include second lien secured debt and subordinated debt) usually ranks subordinate in priority of payment to senior secured loans. PFLT's second lien secured debt is subordinated debt that benefits from a security interest in the borrower. As such, other creditors may rank senior to PFLT in the event of insolvency. Mezzanine debt ranks senior to common and preferred equity in borrowers' capital structures. Due to its higher risk profile and often less restrictive covenants as compared to senior secured loans, mezzanine debt generally



earns a higher return than senior secured loans. In many cases mezzanine investors receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. PFLT evaluates these investment opportunities on a case-by-case basis.

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### **Investment Selection Criteria**

PFLT is committed to a value-oriented philosophy used by the senior investment professionals who manage its portfolio and seek to minimize the risk of capital loss without foregoing potential for capital appreciation.

PFLT has identified several criteria, discussed below, that it believes are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for PFLT's investment decisions. However, PFLT cautions that not all of these criteria will be met by each prospective portfolio company in which it chooses to invest. Generally, PFLT seeks to use its experience and access to market information to identify investment candidates and to structure investments efficiently and effectively.

#### ***a) Leading and defensible competitive market positions***

The PFLT Investment Adviser invests in portfolio companies that it believes have developed strong positions within their markets and exhibit the potential to maintain sufficient cash flows and profitability to service their obligations in a range of economic environments. The PFLT Investment Adviser also seeks to invest in portfolio companies that it believes possess competitive advantages in scale, scope, customer loyalty, product pricing or product quality as compared to their competitors to protect their market position.

#### ***b) Investing in stable borrowers with positive cash flow***

PFLT's investment philosophy places a premium on fundamental analysis and has a distinct value-orientation. The PFLT Investment Adviser invests in portfolio companies it believes to be stable and well-established, with strong cash flows and profitability. The PFLT Investment Adviser believes these attributes indicate portfolio companies that may be well-positioned to maintain consistent cash flow to service and repay their liabilities and maintain growth in their businesses or their relative market share. The PFLT Investment Adviser currently does not expect to invest significantly in start-up companies, companies in turnaround situations or companies with speculative business plans, although PFLT is permitted to do so.

#### ***c) Proven management teams***

The PFLT Investment Adviser focuses on investments in which the portfolio company has an experienced management team with an established track record of success. The PFLT Investment Adviser typically requires that portfolio companies have in place proper incentives to align management's goals with PFLT's goals, including having equity interests.

#### ***d) Financial sponsorship***

The PFLT Investment Adviser may seek to cause PFLT to participate in transactions sponsored by what it believes to be high-quality financial sponsors. The PFLT Investment Adviser believes that a financial sponsor's willingness to invest significant equity capital in a portfolio company is an implicit endorsement of the quality of that portfolio company. Further, financial sponsors of portfolio companies with significant investments at risk may have an ability, and a strong incentive, to contribute additional capital in difficult economic times should financial or operational issues arise so as to maintain their ownership position.

#### ***e) Investments in different borrowers and industries***

The PFLT Investment Adviser seeks to invest PFLT's assets broadly among portfolio companies and across industries. The PFLT Investment Adviser believes that this diversified approach may reduce the risk that a downturn in any one portfolio company or industry will have a disproportionate impact on the value of PFLT's portfolio, although PFLT is permitted to be a non-diversified investment company.

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### ***f) Viable exit strategy***

The PFLT Investment Adviser seeks to invest in portfolio companies that it believes will provide a steady stream of cash flow to repay PFLT's loans while also reinvesting in their respective businesses. The PFLT Investment Adviser expects that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, PFLT's investments in portfolio companies to be a key means by which it will exit from its investments over time. In addition, the PFLT Investment Adviser also seeks to invest in portfolio companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay PFLT's investments through an initial public offering of common stock, refinancing or other capital markets transaction.

### **Due Diligence**

PFLT believes it is critical to conduct extensive due diligence on investment targets and in evaluating new investments. The PFLT Investment Adviser conducts a rigorous due diligence process that is applied to prospective portfolio companies and draws from the PFLT Investment Adviser's experience, industry expertise and network of contacts. In conducting due diligence, the PFLT Investment Adviser uses information provided by companies, financial sponsors and publicly available information as well as information from relationships with former and current management teams, consultants, competitors and investment bankers.

PFLT's due diligence typically includes:

review of historical and prospective financial information;

research relating to the company's management, industry, markets, products and services and competitors;

interviews with management, employees, customers and vendors of the potential portfolio company;

on-site visits;

review of loan documents; and

background checks.

Additional due diligence with respect to any investment may be conducted on PFLT's behalf by attorneys and independent auditors prior to the closing of the investment, as well as other outside advisers, as appropriate.

Upon the completion of due diligence in a portfolio company, the team leading the investment presents the investment opportunity to the PFLT Investment Adviser's investment committee. This committee determines whether to pursue the potential investment. All new investments are required to be reviewed by the investment committee of the PFLT Investment Adviser. The members of the investment committee receive no compensation from PFLT. These members are employees of the PFLT Investment Adviser and receive compensation from the PFLT Investment Adviser.

## **Investment Structure**

Once PFLT determines that a prospective portfolio company is suitable for investment, it works with the management of that company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. PFLT negotiates with these parties to agree on how its investment is structured relative to the other capital in the portfolio company's capital structure.

PFLT expects its Floating Rate Loans to have terms of three to ten years. PFLT generally obtains security interests in the assets of its portfolio companies that will serve as collateral in support of the repayment of these loans. This collateral may take the form of first priority liens on the assets of a portfolio company.

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Typically, PFLT's mezzanine debt has maturities of three to ten years. Mezzanine debt may take the form of a second priority lien on the assets of a portfolio company and have interest-only payments in the early years with cash or PIK payments with amortization of principal deferred to the later years. In some cases, PFLT may invest in debt securities that, by their terms, convert into equity or additional debt securities or defer payments of interest for the first few years after its investment. Also, in some cases, PFLT's mezzanine debt may be collateralized by a subordinated lien on some or all of the assets of the borrower.

PFLT seeks to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects its rights and manages its risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of its portfolio companies, PFLT seeks to limit the downside potential of its investments by:

requiring a total return on its investments (including both interest in the form of a floor and potential equity appreciation) that compensates PFLT for credit risk;

incorporating put rights and call protection into the investment structure; and

negotiating covenants in connection with its investments that afford its portfolio companies as much flexibility in managing their businesses as possible, consistent with its focus on preserving its capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

PFLT's investments may include equity features, such as direct investments in the equity securities of borrowers or warrants or options to buy a minority interest in a portfolio company. Any warrants PFLT may receive with its debt securities generally require only a nominal cost to exercise, so as a portfolio company appreciates in value, PFLT may achieve additional investment return from these equity investments. PFLT may structure the warrants to provide provisions protecting its rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, PFLT may also obtain registration rights in connection with these equity investments, which may include demand and piggyback registration rights.

PFLT expects to hold most of its investments to maturity or repayment, but it may exit certain investments earlier if a liquidity event takes place, such as the sale or refinancing of a portfolio company. PFLT also may turn over investments to better position the portfolio in light of market conditions.

## **Ongoing Relationships with Portfolio Companies**

### ***Monitoring***

The PFLT Investment Adviser monitors its portfolio companies on an ongoing basis. The PFLT Investment Adviser also monitors the financial trends of each portfolio company to determine if it is meeting its respective business plans and to assess the appropriate course of action for each portfolio company.

The PFLT Investment Adviser has several methods of evaluating and monitoring the performance and fair value of PFLT's investments, which may include the following:

assessment of success in adhering to portfolio company's business plan and compliance with covenants;

periodic or regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirement and accomplishments;

comparisons to other portfolio companies in the industry, if any;

attendance at and participation in board meetings or presentations by portfolio companies; and

review of monthly and quarterly financial statements and financial projections for portfolio companies.

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The PFLT Investment Adviser monitors credit risk of each portfolio company regularly with a goal toward identifying early, and when able and appropriate, exiting investments with potential credit problems. This monitoring process may include reviewing: (1) a portfolio company’s financial resources and operating history; (2) comparing a portfolio company’s current operating results with the PFLT Investment Adviser’s initial thesis for the investment and its expectations for the performance of the investment; (3) a portfolio company’s sensitivity to economic conditions; (4) the performance of a portfolio company’s management; (5) a portfolio company’s debt maturities and borrowing requirements; (6) a portfolio company’s interest and asset coverage; and (7) the relative value of an investment based on a portfolio company’s anticipated cash flow.

Under normal market conditions, PFLT expects that at least 80% of its Managed Assets will be invested in Floating Rate Loans and other instruments bearing a variable rate of interest which may, from time to time, include variable rate derivative instruments. This policy is not fundamental and may be changed by PFLT’s board of directors with at least 60 days prior written notice provided to stockholders.

While PFLT’s investment objectives are to seek high current income and capital appreciation through investments in Floating Rate Loans, it may invest up to 35% of the portfolio in opportunistic investments. These investments may include investments in high-yield bonds, distressed debt, private equity or securities of public companies and securities of companies located outside of the United States. PFLT expects that these public foreign companies generally will have debt securities that are non-investment grade.

***Managerial assistance***

PFLT offers managerial assistance to its portfolio companies. As a BDC, PFLT is required to make available such managerial assistance within the meaning of section 55 of the 1940 Act. See Regulation of PFLT for more information.

***Staffing***

PFLT does not currently have any employees. The PFLT Investment Adviser and the PFLT Administrator have hired and expect to continue to hire professionals with skills applicable to PFLT’s business plan, including experience in middle-market investing, mezzanine lending, leveraged finance, distressed debt and private equity businesses.

***PFLT’s Portfolio***

PFLT’s principal investment focus is to invest in Floating Rate Loans to U.S. middle-market companies in a variety of industries. PFLT generally seeks to target companies that generate positive cash flows from the broad variety of industries in which the PFLT Investment Adviser has direct expertise. The following is an illustrative list of the industries in which the PFLT Investment Adviser has invested:

- |                                |   |
|--------------------------------|---|
| Aerospace and Defense          | Environmental Services  |
| Auto Sector                    | Financial Services  |
| Beverage, Food and Tobacco     | Grocery   |
| Broadcasting and Entertainment | Healthcare, Education and Childcare                               |
| Buildings and Real Estate      | High Tech Industries  |
| Building Materials             | Home & Office Furnishings, Housewares & Durable Consumer Products |



Business Services	Hotels, Motels, Inns and Gaming
	Insurance
Cable Television	Leisure, Amusement, Motion Picture & Entertainment
	Logistics
Cargo Transportation	
Chemicals, Plastics and Rubber	

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Communications	Manufacturing/Basic Industries
Consumer Goods: Durable	Media: Broadcasting and Subscription
Consumer Goods: Non-Durable	Mining, Steel, Iron and Non-Precious Metals
Containers, Packaging & Glass	Oil and Gas
Distribution	Other Media
Diversified/Conglomerate Manufacturing	Personal, Food and Miscellaneous Services
Diversified/Conglomerate Services	Printing and Publishing
Education	Retail
Energy/Utilities	Telecommunications

Listed below are PFLT's top ten portfolio companies and industries represented as a percentage of its consolidated portfolio assets (excluding cash equivalents) as of March 31, 2015 and September 30, 2014:

<b>Portfolio Company</b>	<b>March 31, 2015</b>	<b>Portfolio Company</b>	<b>September 30, 2014</b>
SCE Partners, LLC	4%	Patriot National, Inc. (f/k/a Old Guard Risk Services, Inc.)	4%
Novitex Acquisition, LLC	3	AKA Diversified Holdings, Inc.	3
Howard Berger Co. LLC	3	e-Rewards, Inc.	3
iEnergizer Limited and Aparta, Inc.	3	iEnergizer Limited and Aptara, Inc.	3
Instant Web, LLC	3	Instant Web, LLC	3
AKA Diversified Holdings, Inc.	3	New Trident HoldCorp, Inc.	3
Language Line, LLC	3	Novitex Acquisition, LLC	3
New Trident HoldCorp, Inc.	3	SCE Partners, LLC	3
Bowlmor AMF, Corp.	2	Zest Holdings, LLC	3
Polyconcept Finance B.V.	2	Premier Dental Services, Inc.	2

<b>Industry</b>	<b>March 31, 2015</b>	<b>Industry</b>	<b>September 30, 2014</b>
High Tech Industries	13%	Healthcare and Pharmaceuticals	16%
Business Services	11	High Tech Industries	14
Healthcare and Pharmaceuticals	9	Business Services	8
Consumer Services	8	Consumer Services	8
Hotel, Gaming and Leisure	8	Hotel, Gaming and Leisure	8
Consumer Goods: Durable	7	Media: Advertising, Printing and Publishing	7
Media: Advertising, Printing and Publishing	7	Retail	7
Retail	7	Consumer Goods: Durable	6
Automotive	5	Banking, Finance, Insurance and Real Estate	5
Aerospace and Defense	4	Aerospace and Defense	4

PFLT's executive officers and directors, as well as the senior investment professionals of the PFLT Investment Adviser and PFLT Administrator, may serve as officers, directors or principals of entities that operate in the same or a related line of business as PFLT does. Currently, the executive officers and directors, as well as the current senior investment professionals of the PFLT Investment Adviser and the PFLT Administrator, serve as officers and directors of PennantPark Investment Corporation, a publicly traded BDC, and other managed funds, as applicable. Accordingly,

they may have obligations to investors in those entities, the fulfillment of which obligations might not be in the best interest of PFLT or its stockholders. In addition, PFLT notes that any affiliated investment vehicle currently existing, or formed in the future, and managed by the PFLT Investment Adviser and or its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with PFLT and, accordingly, may invest in asset classes similar to those targeted by PFLT. As a result, the PFLT Investment Adviser may face conflicts in allocating investment opportunities among PFLT

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and such other entities. The PFLT Investment Adviser allocates investment opportunities in a fair and equitable manner consistent with its allocation policy, and PFLT has received exemptive relief with respect to certain co-investment transactions. In any such case, when the PFLT Investment Adviser identifies an investment, it will choose which investment fund should receive the allocation. See Risk Factors Risks Relating to PFLT's Business and Structure There are significant potential conflicts of interest which could impact PFLT's investment returns for more information.

PFLT may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. PFLT may also co-invest in the future on a concurrent basis with its affiliates, subject to compliance with applicable regulations and its trade allocation procedures.

As of March 31, 2015, there was no portfolio company in which PFLT has made an investment that represents greater than 5% of its total assets.

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

*The information contained in this section should be read in conjunction with Selected Financial Data of PFLT, Unaudited Selected Pro Forma Consolidated Financial Data, Unaudited Pro Forma Per Share Data, Unaudited Pro Forma Condensed Consolidated Financing Statements and PFLT's financial statements and notes thereto appearing elsewhere in this joint proxy statement and prospectus.*

*PFLT cannot assure you that the Merger will be consummated. See Risk Factors Risks Relating to the Merger for a description of the risks associated with a failure to consummate the Merger and a description of the risks that the combined company may face if the Merger is consummated.*

***Overview***

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

PFLT believes that Floating Rate Loans to U.S. middle-market companies offer attractive risk adjusted returns due to a limited amount of capital available for such companies and the potential for rising interest rates. PFLT uses the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. PFLT 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. PFLT's debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

Under normal market conditions, PFLT generally expects that at least 80% of the value of its Managed Assets will be invested in Floating Rate Loans and other instruments bearing a variable-rate of interest. PFLT generally expects that senior secured loans, or first lien loans, will represent at least 65% of its overall portfolio. PFLT also generally expects to invest up to 35% of its 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. PFLT's investment size may generally range between \$1 million and \$15 million, on average, although PFLT expects that this investment size will vary proportionately with the size of PFLT's capital base.

PFLT's 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 it makes. PFLT has used, and expects to continue to use, the Credit Facility, proceeds from the rotation of its portfolio, and proceeds from public and private offerings of securities to finance its investment objectives.

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

PFLT, a Maryland corporation organized in October 2010, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax

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purposes PFLT has elected to be treated, and intends to qualify annually, as a RIC under the Code.

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

### ***Revenues***

PFLT generates revenue in the form of interest income on the debt securities it holds and capital gains and dividends, if any, on investment securities that it holds in portfolio companies. PFLT's 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 PFLT's investments provide for deferred interest payments or PIK interest. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, PFLT may generate revenue in the form of amendment, commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, OID and market discount or premium are capitalized, and PFLT accretes or amortizes such amounts as income. PFLT records prepayment penalties on loans and debt securities as income or expense, as applicable, using the effective interest method. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that PFLT expects to collect such amounts.

### ***Expenses***

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

the cost of calculating NAV, including the cost of any third-party valuation services;

the cost of effecting sales and repurchases of shares of PFLT 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 PFLT Investment Adviser in performing due diligence and reviews of investments;

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

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

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

federal, state and local taxes;

independent directors fees and expenses;



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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 reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and

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

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

## **Portfolio and Investment Activity**

As of March 31, 2015, PFLT's portfolio totaled \$335.5 million and consisted of \$277.6 million of senior secured loans, \$49.0 million of second lien secured debt and \$8.9 million of subordinated debt, preferred and common equity. PFLT's debt portfolio consisted of 95% variable-rate investments (including 91% with a LIBOR or prime floor) and 5% fixed-rate investments. Overall, the portfolio had net unrealized depreciation of \$4.0 million. PFLT's overall portfolio consisted of 71 companies with an average investment size of \$4.7 million, had a weighted average yield on debt investments of 8.4%, and was invested 83% in senior secured loans, 14% in second lien secured debt and 3% in subordinated debt, preferred and common equity.

As of September 30, 2014, PFLT's portfolio totaled \$348.4 million and consisted of \$302.5 million of senior secured loans, \$36.5 million of second lien secured debt and \$9.4 million of subordinated debt, preferred and common equity. PFLT's debt portfolio consisted of 95% variable-rate investments (including 92% with a LIBOR or prime floor) and 5% fixed-rate investments. As of September 30, 2014, PFLT had one non-accrual debt investment, representing 0.6% of PFLT's overall portfolio on a cost basis. Overall, the portfolio had net unrealized appreciation of \$0.1 million. PFLT's overall portfolio consisted of 72 companies with an average investment size of \$4.8 million, had a weighted average yield on debt investments of 8.2%, and was invested 87% in senior secured loans, 10% in second lien secured debt and 3% in subordinated debt, preferred and common equity.

As of September 30, 2013, PFLT's portfolio totaled \$317.8 million and consisted of \$281.0 million of senior secured loans, \$27.5 million of second lien secured debt and \$9.3 million of subordinated debt, preferred and common equity. PFLT's debt portfolio consisted of 92% variable-rate investments (including 89% with a LIBOR or prime floor) and 8% fixed-rate investments. Overall, the portfolio had net unrealized depreciation of \$1.5 million. PFLT's overall portfolio consisted of 83 companies with an average investment size of \$3.8 million, had a weighted average yield on debt investments of 8.1%, and was invested 88% in senior secured loans, 9% in second lien secured debt and 3% in subordinated debt, preferred and common equity.

For the three months ended March 31, 2015, PFLT invested \$38.4 million in six new and nine existing portfolio companies with a weighted average yield on debt investments of 7.1%. Sales and repayments of investments for the three months ended March 31, 2015 totaled \$48.0 million. For the six months ended March 31, 2015, PFLT invested \$85.4 million in 14 new and 14 existing portfolio companies with a weighted average yield on debt investments of 8.0%. Sales and repayments of investments for the six months ended March 31, 2015 totaled \$92.9 million.

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For the three months ended March 31, 2014, PFLT invested \$50.4 million in eight new and seven existing portfolio companies with a weighted average yield on debt investments of 8.3%. Sales and repayments of investments for the three months ended March 31, 2014 totaled \$35.7 million. For the six months ended March 31, 2014, PFLT invested \$154.3 million in 25 new and 18 existing portfolio companies with a weighted average yield on debt investments of 7.9%. Sales and repayments of investments for the six months ended March 31, 2014 totaled \$91.2 million.

For the fiscal year ended September 30, 2014, PFLT invested \$248.1 million of investments in 36 new and 33 existing portfolio companies with a weighted average yield on debt investments of 8.2%. Sales and repayments of investments for the year ended September 30, 2014 totaled \$225.6 million.

For the fiscal year ended September 30, 2013, PFLT invested \$316.5 million of investments in 75 new and 19 existing portfolio companies with a weighted average yield on debt investments of 7.9%. Sales and repayments of investments for the year ended September 30, 2013 totaled \$174.9 million.

For the fiscal year ended September 30, 2012, PFLT invested \$128.7 million of investments in 47 new and seven existing portfolio companies with a weighted average yield on debt investments of 8.9%. Sales and repayments of investments for the year ended September 30, 2012 totaled \$71.3 million.

## **Critical Accounting Policies**

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

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

PFLT expects that there may not be readily available market values for many of its investments which are or will be in its portfolio, and PFLT values such investments at fair value as determined in good faith by or under the direction of its board of directors using a documented valuation policy described below 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 PFLT's 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, PFLT considers the pricing indicated by the external event to corroborate or revise its 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 PFLT's valuation and the difference may be material.



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

- (1) PFLT's quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the PFLT Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of the PFLT Investment Adviser;
- (3) PFLT's board of directors also engages independent valuation firms to conduct independent appraisals of PFLT's 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 PFLT's board of directors quarterly reviews the preliminary valuations of the PFLT Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) PFLT's board of directors discusses these valuations and determines the fair value of each investment in PFLT's portfolio in good faith based on the input of the PFLT Investment Adviser, the respective independent valuation firms and the audit committee.

PFLT's board of directors generally uses market quotations to assess the value of PFLT's investments for which market quotations are readily available. PFLT obtains 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. The PFLT Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

Fair value, as defined under ASC 820, is the price that PFLT 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 PFLT. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to PFLT 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 PFLT 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 PFLT's own assumptions about how market participants would price the asset or liability.

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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 PFLT's investments and the 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 PFLT's valuation and those differences may be material. A review of fair value hierarchy classifications is conducted on a quarterly basis.

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

The carrying value of PFLT's consolidated financial liabilities approximates fair value. PFLT 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 the Credit Facility. PFLT elected to use the fair value option for the Credit Facility to align the measurement attributes of both its assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, PFLT incurred no expenses relating to amendment fees on the Credit Facility for both the three and six months ended March 31, 2015. For the same periods in the prior year, PFLT incurred expenses of zero and \$0.7 million, respectively. PFLT incurred expenses of \$0.7 million, \$0.4 million and \$0.3 million, relating to amendment fees on the Credit Facility during the years ended September 30, 2014, 2013 and 2012, respectively. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility are reported in PFLT's Consolidated Statements of Operations. PFLT elected not to apply ASC 825-10 to any other financial assets or liabilities. For the three and six months ended March 31, 2015, the Credit Facility had a net change in unrealized appreciation of \$0.2 million and \$0.3 million, respectively. For each of the three and six months ended March 31, 2014, the Credit Facility had a net change in unrealized appreciation of zero. As of March 31, 2015 and September 30, 2014, the net unrealized appreciation on the Credit Facility totaled \$0.3 million and \$0.5, respectively. For the fiscal years ended September 30, 2014, 2013 and 2012, the Credit Facility had a net change in unrealized (appreciation) depreciation of \$(0.5) million, \$(0.4) million and \$0.4 million, respectively. PFLT uses 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 its investments.

***Revenue Recognition***

PFLT records interest income on an accrual basis to the extent that it expects 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, PFLT will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectible. PFLT does not accrue as a receivable interest on loans and debt investments if it has a reason to doubt its ability to collect such interest. Loan origination fees, OID and market discount or premium and deferred financing costs are capitalized, on liabilities which PFLT does not fair value, and then accreted or amortized using the effective interest method. PFLT records 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 PFLT expects to collect such amounts.

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

PFLT measures 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



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prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair value of PFLT's portfolio investment and Credit Facility during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

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

PFLT has investments in its portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. For PFLT to maintain its status as a RIC, substantially all of this income must be paid out to stockholders in the form of distributions, even though it may not collect any cash with respect to interest on PIK securities.

***Federal Income Taxes***

PFLT has elected to be taxed, and intends to qualify annually to maintain its election to be taxed, as a RIC under Subchapter M of the Code. To maintain its RIC tax election, PFLT must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements. PFLT also must annually distribute an amount generally at least equal to 90% of the sum of its 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 PFLT to maintain its RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, PFLT must distribute in respect of each calendar year an amount generally at least equal to the sum of (1) 98% of its net ordinary income for the calendar year, (2) 98.2% of the sum of its net capital gain income (i.e., the excess, if any, of capital gains over capital losses) for the one-year period ending on October 31 of the calendar year and (3) the sum of any net ordinary income plus net capital gain income for preceding years that were not distributed during such calendar years and on which PFLT paid no U.S. federal income tax. In addition, although PFLT 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, it has retained and may continue to retain such net capital gains or net ordinary income to provide itself 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 and six months ended March 31, 2015 and 2014.

***Investment Income***

Investment income for the three and six months ended March 31, 2015 was \$8.0 million and \$15.5 million, respectively, and was attributable to \$6.2 million and \$12.0 million from senior secured loans and \$1.8 million and \$3.5 million from second lien secured debt and subordinated debt. This compares to investment income for the three and six months ended March 31, 2014, which was \$7.6 million and \$14.5 million, respectively, and was attributable to \$6.3 million and \$11.8 million from senior secured loans and \$1.3 million and \$2.7 million from second lien secured debt and subordinated debt. The increase in investment income compared to the same periods over the prior year was primarily due to a higher yielding portfolio.

***Expenses***

Expenses for the three and six months ended March 31, 2015 totaled \$3.5 million and \$5.5 million, respectively. Base management fee for the same periods totaled \$0.9 million and \$1.7 million, incentive fee totaled \$1.3 million (including zero on net realized gains and \$0.3 million on net unrealized gains accrued but not

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payable) and \$1.0 million (including \$(0.4) million on net realized gains and \$(0.3) million on net unrealized gains accrued but not payable), Credit Facility expenses totaled \$0.8 million and \$1.7 million, general and administrative expenses totaled \$0.4 million and \$0.9 million and excise taxes were \$0.1 million and \$0.2 million, respectively. This compares to expenses for the three and six months ended March 31, 2014, which totaled \$3.9 million and \$7.5 million, respectively. Base management fee for the same periods totaled \$1.0 million and \$1.8 million, incentive fee totaled \$1.4 million (including \$0.3 million on net realized gains and \$0.4 million on net unrealized gains accrued but not payable) and \$2.1 million (including \$0.7 million on net realized gains and \$0.6 million on net unrealized gains accrued but not payable), Credit Facility expenses totaled \$1.0 million and \$2.4 million (including \$0.7 million of Credit Facility amendment expenses), general and administrative expenses totaled \$0.4 million and \$1.0 million and excise taxes were \$0.1 million and \$0.2 million, respectively. The decrease in expenses compared to the same periods in the prior year was primarily due to a reduction in the accrual of incentive fees on realized and unrealized gains on the portfolio and the absence of Credit Facility amendment fees in the current period.

***Net Investment Income***

Net investment income totaled \$4.5 million and \$9.9 million, or \$0.30 and \$0.67 per share, for the three and six months ended March 31, 2015, respectively. Net investment income totaled \$3.7 million and \$7.0 million, or \$0.25 and \$0.47 per share, for the three and six months ended March 31, 2014, respectively. The increase in net investment income compared to the same periods in the prior year was due to a higher yielding portfolio, reduction in incentive fees on net realized and net unrealized gains on the portfolio and the absence of amendment fees in the current period on the Credit Facility.

***Net Realized Gains or Losses***

Sales and repayments of investments for the three and six months ended March 31, 2015 totaled \$48.0 million and \$92.9 million and net realized gains totaled \$0.6 million and \$0.4 million, respectively. Sales and repayments of investments totaled \$35.7 million and \$91.2 million and realized gains totaled \$0.5 million and \$1.1 million for the three and six months ended March 31, 2014, respectively. The change in realized gains compared to the same periods in the prior year was primarily driven by changes in market conditions for PFLT's investments.

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

For the three and six months ended March 31, 2015, PFLT reported net unrealized appreciation (depreciation) on investments of \$0.9 million and \$(4.0) million, respectively. For the three and six months ended March 31, 2014, PFLT reported net unrealized appreciation on investments of \$3.0 million and \$5.3 million, respectively. As of March 31, 2015 and September 30, 2014, net unrealized (depreciation) appreciation on investments totaled \$(4.0) million and \$0.1 million, respectively. The change in net unrealized appreciation (depreciation) compared to the same periods in the prior year was primarily the result of the overall variation in the leveraged finance markets.

For the three and six months ended March 31, 2015, the Credit Facility had an unrealized appreciation of \$0.2 million and \$0.3 million, respectively. For each of the three and six months ended March 31, 2014, the Credit Facility had an unrealized appreciation of zero. As of March 31, 2015 and September 30, 2014, net unrealized appreciation on the Credit Facility totaled \$0.3 million and \$0.5 million, respectively. The change in net unrealized appreciation compared to the same period in the prior year was primarily due to changes in the capital markets.

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

Net change in net assets resulting from operations totaled \$6.1 million and \$6.6 million, or \$0.41 and \$0.44 per share, respectively, for the three and six months ended March 31, 2015. This compares to a net change in net assets resulting from operations which totaled \$7.2 million and \$13.3 million, or \$0.49 and \$0.89 per share,

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respectively, for the three and six months ended March 31, 2014. The decrease in the net change in nets assets from operations compared to the same period in the prior year is due to lower net realized and unrealized gains partially offset by higher net investment income.

## **Results of Operations**

Set forth below are the results of operations for the years ended September 30, 2014, 2013 and 2012.

### ***Investment Income***

Investment income for the year ended September 30, 2014 was \$30.4 million and was attributable to \$24.5 million from senior secured loans, \$4.2 million from second lien secured debt and \$1.7 million from subordinated debt. The increase in investment income over the prior year is primarily due to the growth of PFLT's portfolio.

Investment income for the year ended September 30, 2013 was \$18.9 million and was attributable to \$16.0 million from senior secured loans, \$1.6 million from second lien secured debt and \$1.3 million from subordinated debt. The increase in investment income over the prior year is primarily the result of deploying PFLT's proceeds from its equity offerings and increased borrowings under the Credit Facility.

Investment income for the year ended September 30, 2012 was \$12.1 million and was attributable to \$9.9 million from senior secured loans, \$1.0 million from second lien secured debt and \$1.2 million from subordinated debt. The increase in interest income over the prior year was due to both a full year of operation and the increased size of PFLT's portfolio.

### ***Expenses***

Expenses for the year ended September 30, 2014 totaled \$13.7 million. Base management fee for the same period totaled \$3.7 million, incentive fee totaled \$3.5 million (including \$0.1 million on net unrealized gains accrued but not payable), Credit Facility expenses totaled \$4.2 million (including \$0.7 million of Credit Facility amendment expenses), general and administrative expenses totaled \$1.8 million and excise taxes were \$0.5 million. The increase in base management fee, incentive fee and Credit Facility expenses was due to the growth of PFLT's portfolio and expanding PFLT's borrowing capacity under the Credit Facility.

Expenses for the year ended September 30, 2013 totaled \$8.3 million. Base management fee for the same period totaled \$2.2 million, incentive fee totaled \$1.9 million, Credit Facility expenses totaled \$2.3 million (including \$0.4 million of Credit Facility amendment expenses), general and administrative expenses totaled \$1.8 million and excise taxes were \$0.1 million. The increase in expenses was due to the growth of PFLT's portfolio and expanding PFLT's borrowing capacity under the Credit Facility.

Expenses for the year ended September 30, 2012 totaled \$5.8 million. Base management fee for the same period totaled \$1.5 million, incentive fee totaled \$0.6 million, Credit Facility expenses totaled \$1.8 million (including \$0.3 million of Credit Facility amendment expenses) and general and administrative expenses totaled \$1.9 million. PFLT expects the Credit Facility expenses and management fee to continue to increase as a result of growth in its portfolio. Additionally, general and administrative costs increased over the prior year due to a full year of operation.

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

Net investment income totaled \$16.6 million or \$1.12 per share, \$10.5 million or \$1.10 per share and \$6.3 million or \$0.92 per share, for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The increase in net investment income was due to a larger portfolio, which was partially offset by Credit Facility amendment costs.

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**Table of Contents*****Net Realized Gains or Losses***

Sales and repayments of investments for the years ended September 30, 2014, 2013 and 2012 totaled \$225.6 million, \$174.9 million and \$71.3 million, respectively. Net realized gains totaled \$2.9 million, \$3.6 million and \$0.9 million for the same periods, respectively. The decrease in realized gains over the prior year was driven by changes in market conditions of PFLT's investments.

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

For the years ended September 30, 2014, 2013 and 2012, PFLT reported unrealized appreciation (depreciation) on investments of \$1.6 million, \$(1.7) million and \$4.4 million, respectively. As of September 30, 2014 and 2013, net unrealized appreciation (depreciation) on investments totaled \$0.1 million and \$(1.5) million, respectively. The change compared to prior year was the result of the overall variation in the leveraged finance markets.

For the years ended September 30, 2014, 2013 and 2012, the Credit Facility had a change in unrealized (appreciation) depreciation of \$(0.5) million, \$(0.4) million and \$0.4 million, respectively. As of September 30, 2014 and 2013, net unrealized appreciation on the Credit Facility totaled \$0.5 million and zero, respectively. The change compared to prior year was due to changes in the capital markets.

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

Net change in net assets resulting from operations totaled \$20.5 million or \$1.38 per share, \$12.0 million or \$1.25 per share and \$12.0 million or \$1.75 per share, for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. PFLT found attractive investment opportunities to grow net assets from operations.

**Liquidity and Capital Resources**

PFLT's liquidity and capital resources are derived from public offerings, the Credit Facility, cash flows from operations, including investment sales and repayments, and income earned. PFLT's primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses it incurs. PFLT has used, and expect to continue to use, the Credit Facility, the rotation of its portfolio and proceeds from public and private offerings of securities to finance its investment objectives.

Funding I's Credit Facility with the Lenders, is \$200 million, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on PFLT as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of May 2018 and a revolving period that ends in May 2016. As of March 31, 2015 and September 30, 2014, Funding I had \$117.3 million and \$146.4 million of outstanding borrowings under the Credit Facility, respectively, and carried an interest rate of 2.18% and 2.16%, respectively, excluding the 0.50% and 0.375% undrawn commitment fee, respectively. The annualized weighted average cost of debt for the six months ended March 31, 2015 and 2014, inclusive of the fee on the undrawn commitment on the Credit Facility but excluding amendment costs, was 2.46% and 2.39%, respectively. As of March 31, 2015 and September 30, 2014, PFLT had \$82.7 million and \$53.6 million of unused borrowing capacity, respectively, subject to the regulatory restrictions that the 1940 Act imposes on it as a BDC. As of September 30, 2014 and 2013, Funding I had \$146.4 million and \$99.6 million of outstanding borrowings under the Credit Facility, respectively, and carried an interest rate of 2.16% and 2.18%, respectively, excluding the 0.375% undrawn commitment fee. The weighted average cost of debt for the years ended September 30, 2014, 2013 and 2012, inclusive of the fee on the undrawn commitment on the Credit Facility but excluding amendment costs, was 2.35%, 2.59% and 3.21%, respectively. As of September 30, 2014 and 2013, PFLT had \$53.6 million and \$25.4 million of unused borrowing capacity, respectively, subject to the regulatory restrictions

that the 1940 Act imposes on it as a BDC.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in May



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2018. The Credit Facility is secured by all of the assets of Funding I. Both PFLT and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including but not limited to, restrictions of loan size, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. For instance, PFLT must maintain at least \$25 million in equity and must maintain an interest coverage ratio of at least 125%. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of March 31, 2015 and September 30, 2014, PFLT was in compliance with the covenants relating to the Credit Facility.

PFLT owns 100% of the equity interest in Funding I and will treat the indebtedness of Funding I as part of its leverage. In accordance with the 1940 Act, with certain limited exceptions, PFLT is only allowed to borrow amounts such that it is in compliance with the asset coverage ratio after such borrowing. The PFLT Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

PFLT's interest in Funding I (other than the management fee) is subordinate in priority of payment to every other obligation of Funding I and is subject to certain payment restrictions set forth in the Credit Facility. PFLT may receive cash distributions on its equity interests in Funding I only after it has made (1) all required cash interest and, if applicable, principal payments to the Lenders, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. PFLT cannot assure you that there will be sufficient funds available to make any distributions to it or that such distributions will meet its expectations from Funding I. The PFLT Investment Adviser has irrevocably directed that the management fee owed with respect to such services is to be paid to PFLT so long as PFLT Investment Adviser remains the collateral manager.

PFLT may raise equity or debt capital through both registered offerings and private offerings of securities and by securitizing a portion of its investments among other considerations. Furthermore, the 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 PFLT's stockholders or for other general corporate purposes.

On March 31, 2015 and September 30, 2014, PFLT had cash equivalents of \$9.8 million and \$13.1 million, respectively, available for investing and general corporate purposes. PFLT believes its liquidity and capital resources are sufficient to take advantage of market opportunities.

PFLT's operating activities provided cash of \$33.9 million for the six months ended March 31, 2015, and its financing activities used cash of \$37.1 million for the same period. PFLT's operating activities used cash primarily for its investment activities and its financing activities provided cash primarily from net draws under the Credit Facility.

PFLT's operating activities used cash of \$65.1 million for the six months ended March 31, 2014, and its financing activities provided cash of \$65.6 million for the same period. PFLT's operating activities used cash primarily for its investment activities and its financing activities provided cash primarily from net draws under the Credit Facility.

On September 30, 2014 and September 30, 2013, PFLT had cash equivalents of \$13.1 million and \$4.6 million, respectively, available for investing and general corporate purposes. PFLT believes its liquidity and capital resources are sufficient to take advantage of market opportunities.



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PFLT's operating activities used cash of \$22.3 million for the year ended September 30, 2014, and its financing activities provided cash of \$30.8 million for the same period. PFLT's operating activities used cash primarily for its investment activities and its financing activities provided cash primarily from net draws under the Credit Facility.

PFLT's operating activities used cash of \$124.4 million for the year ended September 30, 2013, and its financing activities provided cash of \$125.1 million for the same period. PFLT's operating activities used cash primarily for net investing that was provided from public offerings and net draws under the Credit Facility.

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

In 2013, PFLT completed follow-on public offerings of 8,038,700 shares of PFLT Common Stock for gross proceeds of \$113.4 million and net proceeds of \$112.3 million after offering expenses. PFLT Investment Adviser paid an aggregate of \$2.9 million of the sales load associated with these offerings.

**Contractual Obligations**

A summary of PFLT's significant contractual payment obligations as of March 31, 2015, including borrowings under the 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	\$ 117.3	\$	\$	\$ 117.3	\$
Unfunded investments <sup>(1)</sup>	4.0			4.0	
<b>Total contractual obligations</b>	<b>\$ 121.3</b>	<b>\$</b>	<b>\$</b>	<b>\$ 121.3</b>	<b>\$</b>

(1) Unfunded investments are disclosed in the Consolidated Schedule of Investments.

PFLT has entered into certain contracts under which it has material future commitments. Under the PFLT Investment Management Agreement, which was reapproved by PFLT's board of directors, including a majority of directors who are not interested persons of PFLT or the PFLT Investment Adviser, in February 2015, the PFLT Investment Adviser serves as PFLT's investment adviser. Payments under the PFLT Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of PFLT's gross assets and (2) an incentive fee based on PFLT's performance.

Under the Administration Agreement, which was reapproved by PFLT's board of directors, including a majority of the directors who are not interested persons of PFLT, in February 2015, PFLT Administrator furnishes PFLT with office facilities and administrative services necessary to conduct its day-to-day operations. If requested to provide managerial assistance to PFLT's portfolio companies, PFLT or PFLT Administrator will be paid an additional amount based on the services provided. Payment under the Administration Agreement is based upon PFLT's allocable portion of the PFLT Administrator's overhead in performing its obligations under the Administration Agreement, including rent and PFLT's allocable portion of the costs of its Chief Compliance Officer, Chief Financial Officer and their

respective staffs.

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

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**Table of Contents*****Off-Balance Sheet Arrangements***

PFLT currently engages in no off-balance sheet arrangements other than funding requirements for the unfunded investments described above.

***Distributions***

In order to qualify as a RIC and to not be subject to corporate-level tax on income, PFLT is required, under Subchapter M of the Code, to annually distribute at least 90% of the sum of its 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 PFLT to maintain its RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, PFLT must distribute in respect of each calendar year an amount generally at least equal to the sum of (1) 98% of its net ordinary income for the calendar year, (2) 98.2% of its capital gain net income (i.e., the excess, if any, of capital gains over capital losses) for the one-year period ending on October 31 of the calendar year and (3) the sum of any net ordinary income plus capital gain net income for preceding years that were not distributed during such calendar years and on which PFLT paid no U.S. federal income tax. In addition, although PFLT 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, it has retained and may continue to retain such net capital gains or net ordinary income to provide itself with additional liquidity.

During the three and six months ended March 31, 2015, PFLT declared distributions of \$0.275 and \$0.545 per share, respectively, for total distributions of \$4.1 million and \$8.1 million, respectively. For the same periods in the prior year, PFLT declared distributions of \$0.270 and \$0.540 per share, respectively, for total distributions of \$4.0 million and \$8.0 million, respectively. During the years ended September 30, 2014, 2013 and 2012, PFLT declared distributions of \$1.08, \$1.03 and \$0.91 per share, respectively, for total distributions of \$16.1 million, \$10.0 million and \$6.2 million, respectively. PFLT monitors available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent PFLT's taxable earnings fall below the total amount of its distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to holders of PFLT Common Stock. Tax characteristics of distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year and in PFLT's periodic reports filed with the SEC.

PFLT intends to continue to make monthly distributions to its stockholders. PFLT's monthly distributions, if any, are determined by its board of directors quarterly.

PFLT maintains an opt out dividend reinvestment plan for its stockholders. As a result, if PFLT declares a distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of PFLT Common Stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions.

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

PFLT may distribute PFLT Common Stock as a dividend of its taxable income and a stockholder could receive a portion of the dividends declared and distributed by PFLT in shares of PFLT Common Stock with the remaining

amount in cash. A stockholder will be considered to have recognized dividend income equal to the fair market value of the stock paid by PFLT plus cash received with respect to such dividend. PFLT has not elected to distribute stock as a dividend but reserve the right to do so.

**Table of Contents****Quantitative And Qualitative Disclosures About Market Risk**

PFLT is subject to financial market risks, including changes in interest rates. As of March 31, 2015, PFLT's debt portfolio consisted of 95% variable-rate investments (including 91% with a LIBOR or prime floor) and 5% 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, PFLT does 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, PFLT's 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 was to remain constant, and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

Change In Interest Rates	Change In Interest Income, Net Of Interest Expense (in thousands)	Per Share
Up 1%	\$ (975)	\$ (0.07)
Up 2%	\$ 1,096	\$ 0.07
Up 3%	\$ 3,166	\$ 0.21
Up 4%	\$ 5,236	\$ 0.35

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

Because PFLT borrows money to make investments, its net investment income is dependent upon the difference between the rate at which it borrows funds and the rate at which it invests these funds, as well as its 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 PFLT's net investment income or net assets.

PFLT 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 PFLT against adverse changes in interest rates, they may also limit its ability to participate in the benefits of lower interest rates with respect to its portfolio of investments with fixed interest rates. During the three months ended March 31, 2015, PFLT did not engage in interest rate hedging activities.

**Table of Contents****SENIOR SECURITIES OF PFLT**

Information about PFLT's senior securities shown in the following table as of September 30, 2014, 2013, 2012 and 2011 is from its Consolidated Financial Statements which have been audited by an independent registered public accounting firm for those periods. Information as of March 31, 2015 is from PFLT's quarterly unaudited financial statements. This information about PFLT's senior securities should be read in conjunction with its Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

<b>Class and Year</b>	<b>Total Amount Outstanding <sup>(1)</sup></b>	<b>Asset Coverage per Unit <sup>(2)</sup> (unaudited)</b>	<b>Average Market Value Per Unit <sup>(3)</sup></b>
<b>Credit Facility</b>			
Fiscal 2015 (as of March 31, 2015) <sup>(4)</sup>	\$ 117,300	\$ 2,811	N/A
Fiscal 2014	\$ 146,400	\$ 2,460	N/A
Fiscal 2013	\$ 99,600	\$ 3,109	N/A
Fiscal 2012	\$ 75,500	\$ 2,275	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 PFLT's consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.  
(3) Not applicable, as senior securities are not registered for public trading.  
(4) Unaudited.



**Table of Contents****PORTFOLIO COMPANIES OF PFLT**

The following is a listing of each portfolio company or its affiliate, together referred to as portfolio companies, in which PFLT had an investment at March 31, 2015. Percentages shown for class of investment securities held by PFLT represent percentage of voting ownership and not economic ownership. Percentages shown for equity securities, other than warrants or options held, if any, represent the actual percentage of the class of security held before dilution. For additional information see PFLT's Consolidated Schedule of Investments (Unaudited) in PFLT's March 31, 2015 Consolidated Financial Statements included elsewhere in this joint proxy statement and prospectus.

The portfolio companies are presented in three categories: Companies less than 5% owned which represent portfolio companies where PFLT directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where PFLT has no other affiliations with such portfolio company; Companies 5% to 24% owned which represent portfolio companies where PFLT directly or indirectly owns 5% or more but less than 25% of the outstanding voting securities of such portfolio company or where PFLT holds one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and Companies 25% or more owned which represent portfolio companies where PFLT directly or indirectly owns 25% or more of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by PFLT under the 1940 Act. PFLT makes available significant managerial assistance to its portfolio companies. Certain assets are pledged as collateral under the Credit Facility as disclosed in its Consolidated Schedule of Investments. Unless otherwise noted, PFLT held no voting board membership on any of its portfolio companies.

<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Voting Percentage Ownership <sup>(1)</sup></b>
<b>Companies less than 5% owned</b>			
Affinion Group Holdings, Inc.  (Affinion Investments LLC)  100 Connecticut Avenue  Norwalk, CT 06850	Consumer Goods: Durable	Subordinated Debt  Warrants	
AKA Diversified Holdings, Inc.  (A2Z Wireless Holdings, Inc.)  775 Prairie Center Drive, Ste. 420  Eden Prairie, MN 55344	Retail	First Lien Secured Debt  Common Equity	0.4%
ALG USA Holdings, LLC  7 Campus Boulevard  Newtown Square, PA 19073	Hotel, Gaming and Leisure	First Lien Secured Debt	
American Gilsonite Company	Metals and Mining	Second Lien Secured Debt	

1717 St. James Place

Houston, TX 77056

Ancile Solutions, Inc.

High Tech Industries

First Lien Secured Debt

6085 Marshalee Drive

Elkridge, MD 21075

AP Gaming I, LLC

Hotel, Gaming and Leisure

First Lien Secured Debt

6680 Amelia Earhart Court

Las Vegas, NV 89119

ARC Automotive Group, Inc.

Automotive

First Lien Secured Debt

1729 Midpark Road, Ste. 100

Knoxville, TN 37921

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Voting Percentage Ownership <sup>(1)</sup></b>
Ascend Learning, LLC 5 Wall Street Burlington, MA 01803	Media: Broadcasting and Subscription	First Lien Secured Debt	
Aspen Dental Management, Inc. 281 Sanders Creek Parkway East Syracuse, NY 13057	Consumer Services	First Lien Secured Debt	
Azure Midstream Energy LLC 1250 Wood Bridge Branch Park Dr., Ste. 100 Houston, TX 77079	Energy: Oil and Gas	First Lien Secured Debt	
Blue Bird Body Company 402 Blue Bird Boulevard Fort Valley, GA 31030	Automotive	First Lien Secured Debt	
Bowlmor AMF, Corp. 222 W. 44th St. New York, NY 10036	Retail	First Lien Secured Debt	
Cannery Casino Resorts, LLC 2121 E Craig Road North Las Vegas, NV 89030	Hotel, Gaming and Leisure	Second Lien Secured Debt	
Carolina Beverage Group, LLC 110 Barley Park Lane Mooresville, NC 28115	Beverage, Food and Tobacco	Second Lien Secured Debt	
CBAC Borrower, LLC One Caesars Palace Drive Las Vegas, NV 89109	Hotel, Gaming and Leisure	First Lien Secured Debt	
Charming Charlie LLC	Retail	First Lien Secured Debt	

5999 Savoy Drive, Houston, TX 77036		
Chicken Soup for the Soul Publishing, LLC 21 Hedgerow Lane Greenwich, CT 06831	Media: Advertising, Printing and Publishing	First Lien Secured Debt
Creative Circle, LLC 5900 Wilshire Boulevard Los Angeles, CA 90036	Media: Advertising, Printing and Publishing	First Lien Secured Debt
Credit Infonet, Inc. 4540 Honeywell Court Dayton, OH 45424	High Tech Industries	Subordinated Debt
CRGT Inc. 11921 Freedom Drive, Ste. 1000 Reston, VA 20190	High Tech Industries	First Lien Secured Debt
Curo Health Services Holdings, Inc. 491 Williamson Road, Ste. 204 Mooresville, NC 28117	Healthcare and Pharmaceuticals	First Lien Secured Debt

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Voting Percentage Ownership <sup>(1)</sup></b>
DCS Business Services, Inc. 333 North Canyon Parkway, Ste. 100 Livermore, CA 94551	Business Services	First Lien Secured Debt	
DISA Global Solutions, Inc. 12600 Northborough Drive, Ste. 300 Houston, TX 77067	Business Services	First Lien Secured Debt	
Edmentum, Inc. 5600 West 83rd Street, Ste. 300, 8200 Tower Bloomington, MN 55437	Media: Broadcasting and Subscription	First Lien Secured Debt	
eResearchTechnology, Inc. 1818 Market Street Philadelphia, PA 19103	Healthcare and Pharmaceuticals	First Lien Secured Debt	
GlobalLogic Holdings, Inc. 1741 Technology Drive, 4th Floor San Jose, CA 95110	High Tech Industries	First Lien Secured Debt	
Granite Broadcasting Corporation 767 Third Avenue, 34th Floor New York, NY 10017	Media: Broadcasting and Subscription	First Lien Secured Debt	
Greenway Health, LLC 100 Greenway Blvd. Carrollton, GA 30117	High Tech Industries	First Lien Secured Debt	
Help/Systems Holdings, Inc. 6455 City West Parkway Eden Prairie, MN 55344	High Tech Industries	First Lien Secured Debt	
Hollander Sleep Products, LLC	Consumer Goods: Non-Durable	First Lien Secured Debt	

6501 Congress Avenue, Ste. 300		
Boca Raton, FL 33487		
Hostway Corporation	High Tech Industries	First Lien Secured Debt
100 N Riverside, Ste. 800		
Chicago, IL 60606		
Howard Berger Co. LLC	Wholesale	Second Lien Secured Debt
324 Half Acre Road #A		
Cranbury, NJ 08512		
Hunter Defense Technologies, Inc.	Aerospace and Defense	First Lien Secured Debt
30500 Aurora Road, Ste. 100		
Solon, OH 44139		
ICC-Nexenergy, Inc.	Consumer Goods: Durable	First Lien Secured Debt
4 Westbrook Corporate Center, Ste. 900		
Westchester, IL 60154		
Icynene U.S. Acquisition Corp. <sup>(2)</sup>	Construction and Building	First Lien Secured Debt
6747 Campobello Road		
Mississauga ON		
L5N2L7 Canada		

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Voting Percentage Ownership<sup>(1)</sup></b>
IDQ Holdings, Inc. 2901 West Kingsley Road Garland, TX 75041	Automotive	First Lien Secured Debt	
iEnergizer Limited and Aptara, Inc. <sup>(2)</sup> Mont Crevelt House, Bulwer Avenue St. Sampson, Guernsey GY2 4LH	Business Services	First Lien Secured Debt	
Instant Web, LLC 7951 Powers Boulevard Chanhausen, MN 55317	Media: Advertising, Printing and Publishing	First Lien Secured Debt	
J.A. Cosmetics Holdings, Inc. (J.A. Cosmetics US, Inc.) 345 California Street, Ste. 3300 San Francisco, CA 94104	Consumer Goods: Durable	Second Lien Secured Debt  Preferred Equity  Common Equity	0.3%
Jackson Hewitt Tax Service Inc. 3 Sylvan Way Parsippany, NJ 07054	Consumer Services	First Lien Secured Debt	
K2 Pure Solutions NoCal, L.P. 3515 Massillion Road, Ste. 290 Uniontown, OH 44685	Chemicals, Plastics and Rubber	First Lien Secured Debt	
Language Line, LLC 1 Lower Ragsdale Drive, Building 2 Monterey CA, 93940	Consumer Services	Second Lien Secured Debt	
Lanyon Solutions, Inc. 10182 Telesis Court San Diego, CA 92121	High Tech Industries	First Lien Secured Debt	

LifeCare Holdings LLC 5340 Legacy Drive Ste. 150, Building 4 Plano, TX 75024	Healthcare and Pharmaceuticals	First Lien Secured Debt
Meritas Schools Holdings, LLC 630 Dundee Road, Ste. 400 Northbrook, IL 60062	Consumer Services	First Lien Secured Debt
New Trident HoldCorp, Inc. 930 Ridgebrook Road, 3rd Floor Sparks, MD 21152	Healthcare and Pharmaceuticals	First Lien Secured Debt
Novitex Acquisition, LLC 1 Elmcroft Road Stamford, CT 06926	Business Services	Second Lien Secured Debt
Patriot National, Inc. 401 E. Las Olas Blvd., Ste. 1650 Fort Lauderdale, FL 33301	Banking, Finance, Insurance and Real Estate	Warrants
Penton Media, Inc. 249 W. 17th Street, 4th Floor New York, NY 10011	Media: Diversified and Production	Second Lien Secured Debt



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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Voting Percentage Ownership <sup>(1)</sup></b>
Polyconcept Finance B.V. 400 Hunt Valley Road New Kensington, PA 15068	Consumer Goods: Non-Durable	First Lien Secured Debt	
Premier Dental Services, Inc. 530 S Main Street, 6th Floor Orange, CA 92868	Consumer Services	First Lien Secured Debt	
Quality Home Brands Holdings LLC 7400 Linder Avenue Skokie, IL 60077	Consumer Goods: Durable	First Lien Secured Debt	
Research Now Group, Inc. 5800 Tennyson Parkway, Ste. 600 Plano, TX 75024	High Tech Industries	First Lien Secured Debt	
Robertshaw US Holding Corp. 191 East North Avenue Carol Stream, IL 60188	Consumer Goods: Durable	First Lien Secured Debt	
SCE Partners, LLC c/o WG-Iowa, LLC 3883 Howard Hughes Parkway, Ste. 800 Las Vegas, NV 89169	Hotel, Gaming and Leisure	First Lien Secured Debt	
Sotera Defense Solutions, Inc. 2121 Cooperative Way, Ste. 400 Herndon, VA 20171	Aerospace and Defense	First Lien Secured Debt	
St. George's University Scholastic Services LLC <sup>(2)</sup> 3500 Sunrise Highway, Bldg. 300	Consumer Services	First Lien Secured Debt	

Great River, NY 11739

Sunshine Oilsands Ltd. <sup>(2)</sup>	Energy: Oil and Gas	Second Lien Secured Debt
1020, 903 8 Avenue S.W.		
Calgary, Alberta, Canada T2P 0P7		

Surgical Specialties Corporation (US), Inc.	Healthcare and Pharmaceuticals	First Lien Secured Debt
355 Burrard Street, Ste. 1100		
Vancouver, British Columbia, Canada		
V6C 2G8		

Survey Sampling International, LLC	Business Services	First Lien Secured Debt
6 Research Drive		
Shelton, CT 06484		

Systems Maintenance Services Holding, Inc.	High Tech Industries	First Lien Secured Debt
10420 Harris Oaks Blvd, Ste. C		
Charlotte, NC 28269		

Tensar Corporation	Construction and Buildings	First Lien Secured Debt
2500 Northwinds Parkway, Ste. 500		
Alpharetta, GA 30009		

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment</b>	<b>Voting Percentage Ownership <sup>(1)</sup></b>
Therakos, Inc. 1001 US Route 202 Raritan, NJ 08869	Healthcare and Pharmaceuticals	First Lien Secured Debt	
TOMS Shoes, LLC 5404 Jandy Place Los Angeles, CA 90066	Consumer Goods: Non- Durable	First Lien Secured Debt	
U.S. Farathane, LLC 2700 High Meadow Circle Auburn Hills, MI 48326	Business Services	First Lien Secured Debt	
UniTek Global Services, Inc. 1777 Sentry Parkway West Gwynedd Hall, Ste. 202 Blue Bell, PA 19422	Telecommunications	First Lien Secured Debt Subordinated Debt Common Equity Preferred Equity	1.5%
Vestcom Parent Holdings, Inc. 7302 Kanis Road Little Rock, AR 72204	Media: Advertising, Printing and Publishing	Common Equity	0.2%
Virtual Radiologic Corporation 11995 Singletree Lane, Ste. 500 Eden Prairie, MN 55344	Business Services	First Lien Secured Debt	
Wilton Brands, LLC 2240 W. 75th Street Woodridge, IL 60517	Consumer Goods: Non- Durable	First Lien Secured Debt	
Worley Claims Services, LLC P.O. Box 249 Hammond, LA 70404	Banking, Finance, Insurance and Real Estate	First Lien Secured Debt	

YP LLC

Media: Advertising,  
Printing and Publishing

First Lien Secured Debt

2247 Northlake Parkway

Tucker, GA 30084

- (1) Voting ownership percentage refers only to common equity, preferred equity and warrants held, if any, where PFLT has voting rights.
- (2) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, PFLT may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of PFLT's total assets.

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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:

<b>Industry Classification</b>	<b>March 31, 2015</b>	<b>September 30, 2014</b>
High Tech Industries	13%	14%
Business Services	11	8
Healthcare and Pharmaceuticals	9	16
Consumer Services	8	8
Hotel, Gaming and Leisure	8	8
Consumer Goods: Durable	7	6
Media: Advertising, Printing and Publishing	7	7
Retail	7	7
Automotive	5	3
Aerospace and Defense	4	4
Consumer Goods: Non-Durable	4	3
Construction and Building	3	1
Energy: Oil and Gas	3	2
Wholesale	3	
Chemicals, Plastics and Rubber	2	2
Media: Diversified and Production	2	2
Banking, Finance, Insurance and Real Estate	1	5
All Other	3	4
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Table of Contents****MANAGEMENT OF PFLT**

PFLT's business and affairs are managed under the direction of its board of directors. The board of directors currently consists of five members, or directors, four of whom are not interested persons of PFLT as defined in Section 2(a)(19) of the 1940 Act. PFLT refers to these individuals as its Independent Directors. The board of directors elects PFLT's officers, who serve at the discretion of the board of directors.

**Board of Directors**

Under PFLT's charter, the directors are divided into three classes and are elected for staggered terms of three years each, with a term of office of one of the three classes of directors expiring each year. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Information regarding the board of directors as of the date of this joint proxy statement and prospectus is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Independent Directors</b>				
Adam K. Bernstein	51	Director	2010	2016
Marshall Brozost	47	Director	2010	2018
Jeffrey Flug	52	Director	2010	2016
Samuel L. Katz	49	Director	2010	2018
<b>Interested director</b>				
Arthur H. Penn	51	Chairman of the Board and Chief Executive Officer	2010	2017

**Executive Officer Who is Not a Director**

The following information pertains to PFLT's executive officer who is not a director of PFLT.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Aviv Efrat	51	Chief Financial Officer and Treasurer

**Officer Who is Not a Director**

The following information pertains to the officer who is not a director of PFLT.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Guy F. Talarico	59	Chief Compliance Officer

The executive office is located at 590 Madison Avenue, 15th Floor, New York, New York 10022.

***Board of Directors Composition and Leadership Structure***

The 1940 Act requires that at least a majority of PFLT's directors not be interested persons (as defined in the 1940 Act). Currently, four of five directors are Independent Directors. The Chairman of PFLT's board of directors is the Chief Executive Officer and therefore an interested person. The Independent Directors believe

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that the combined position of Chief Executive Officer and Chairman of the board of directors results in greater efficiencies in managing PFLT by eliminating the need to transfer substantial information quickly and repeatedly between the Chief Executive Officer and the Chairman and by offering the ability to capitalize on the specialized knowledge acquired from the duties of the roles. The board of directors has not identified a lead Independent Director; however, it has determined that PFLT's leadership structure, in which 80% of the directors are Independent Directors and, as such, are not affiliated with the PFLT Investment Adviser or PFLT Administrator, is appropriate in light of the services that the PFLT Investment Adviser and PFLT Administrator provide PFLT and the potential conflicts of interest that could arise from these relationships.

***Board of Directors Risk Oversight Role***

The board of directors performs its risk oversight function primarily through (1) its three standing committees, described more fully below, which report to the entire board of directors and are comprised solely of Independent Directors and (2) monitoring by the Chief Compliance Officer in accordance with PFLT's compliance policies and procedures.

As described below in more detail under Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee, the board of directors' Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee assist the board of directors in fulfilling its risk oversight responsibilities. The Audit Committee's risk oversight responsibilities include overseeing PFLT's accounting and financial reporting processes, including the annual audit of the financial statements and systems of internal controls regarding finance and accounting, pre-approving the engagement of an independent registered public accounting firm to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent registered public accounting firm. The Nominating and Corporate Governance Committee's risk oversight responsibilities include selecting, researching and nominating directors for election by PFLT's stockholders, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the directors and PFLT's management. The Compensation Committee's risk oversight responsibilities include determining, or recommending to the board of directors for determining, the compensation of PFLT's chief executive officer and all other executive officers, paid directly by PFLT, if any, and assisting the board of directors with matters related to compensation, as directed by the board of directors. The Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee consist solely of Independent Directors.

The board of directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. PFLT's Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures and certain of PFLT's service providers. The Chief Compliance Officer's report, which is reviewed by the board of directors, addresses at a minimum (1) the operation of the compliance policies and procedures and certain of PFLT's service providers since the last report; (2) any material changes to such policies and procedures since the last report; (3) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (4) any compliance matter that has occurred since the date of the last report about which the board of directors would reasonably need to know to oversee the compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the Independent Directors at least once each year.

PFLT believes that the board of directors' role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a BDC. Specifically, as a BDC, PFLT must comply with certain regulatory requirements that controls the levels of risk in its business and operations. For example, PFLT's ability to incur indebtedness is limited by the asset coverage ratio set forth in the 1940 Act (including any relief thereto provided by the SEC), and it generally must invest at least 70% of its total assets in qualifying assets. In addition, PFLT elected to



be treated as a RIC under the Code. As a RIC, PFLT must, among other things, meet certain income source and asset diversification requirements.

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PFLT believes that the extent of the board of directors' and its committees' roles in risk oversight complements the board of directors' leadership structure. Because they are comprised solely of Independent Directors, the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee are able to exercise their oversight responsibilities without any conflict of interest that might discourage critical questioning and review. Through regular executive session meetings with PFLT's independent auditors, Chief Compliance Officer and Chief Executive Officer, the Independent Directors have similarly established direct communication and oversight channels that the board of directors believes foster open communication and early detection of issues of concern.

PFLT believes that the board of directors' role in risk oversight must be evaluated on a case by case basis and that the current configuration and allocation of responsibilities among the board of directors and its committees with respect to the oversight of risk is appropriate. However, the board of directors and its committees continually re-examine the manner in which they administer their respective risk oversight functions, including through formal annual assessments of performance, to ensure that they meet PFLT's needs.

## **Biographical Information**

The board of directors believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the board of directors to operate effectively in governing PFLT and protecting the interests of its stockholders. Below is a description of the various experiences, qualifications, attributes and/or skills with respect to each director considered by the board of directors. PFLT's directors have been divided into two groups—interested directors and Independent Directors. Interested directors are interested persons as defined in the 1940 Act.

### ***Independent Directors***

Adam K. Bernstein (51), Director. Mr. Bernstein became a Director of PFLT and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Mr. Bernstein is currently President of The Bernstein Companies, a Washington, D.C.-based real estate investment and development firm which he joined in 1986. Mr. Bernstein runs a diversified company that includes a Hotel division, a Private Real Estate Investment Trust, and a structured financed group that focuses on tax credit syndication and project lending for community development projects nationwide. In 2012, Mr. Bernstein was appointed to the Board of Overseers of the School of Arts and Sciences at the University of Pennsylvania.

Marshall Brozost (47), Director. Mr. Brozost became a Director of PFLT and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Since May 2012, Mr. Brozost has been a Partner at Schulte Roth & Zabel, LLP, where he practices in the real estate and private equity groups. Prior to Schulte Roth & Zabel, Mr. Brozost practiced law at O'Melveny & Myers LLP from 2001 to 2004; Solomon & Weinberg LLP from 2004 to 2005; Dewey & LeBoeuf LLP from 2005 to 2012. Mr. Brozost also served as a Vice President of Nomura Asset Capital Corporation from 1997 through 2000.

Jeffrey Flug (52), Director. Mr. Flug became a Director of PFLT and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Since 2009, Mr. Flug has held a variety of senior positions, including, currently, President of Union Square Hospitality Group, an exclusive chain of restaurants. Since October 2012, Mr. Flug has been a director of Sears Hometown and Outlet Stores, Inc. Mr. Flug was Chief Executive Officer and Executive Director of Millennium Promise Alliance, Inc. from 2006 to 2008. Millennium Promise is a non-profit organization whose mission is to eradicate extreme global poverty. Mr. Flug was Managing Director and Head of North American Institutional Sales at JP Morgan's Investment Bank from 2000 to 2006. From 1988 to 2000, Mr. Flug was Managing Director for Goldman Sachs & Co. in its Fixed Income Division.

Samuel L. Katz (49), Director. Mr. Katz became a Director of PFLT and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Mr. Katz is the Managing Partner of TZP Group,

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LLC, a private equity fund he formed in 2007. Prior to joining TZP Group, Mr. Katz was Chief Executive Officer of MacAndrews & Forbes Acquisition Holdings, Inc. from 2006 through 2007. From 1996 through 2005, Mr. Katz held a variety of senior positions at Cendant Corporation, including, most recently, Chairman and Chief Executive Officer of the Cendant Travel Distribution Services Division from 2001 to 2005. From 1992 to 1995, Mr. Katz invested in private and public equity as Co-Chairman of Saber Capital, Inc. and Vice President of Dickstein Partners Inc. From 1988 to 1992, Mr. Katz was an Associate and Vice President at The Blackstone Group, where he worked on numerous private equity transactions, including the initial leveraged buyouts of several hotel franchise brands which created the predecessor to Cendant Corporation. From 1986 to 1988, Mr. Katz was a Financial Analyst at Drexel Burnham Lambert.

***Interested Director***

Arthur H. Penn (51), Founder, Chief Executive Officer and Chairman of the board of directors. Mr. Penn became the Chief Executive Officer and a Director of PFLT and PennantPark Investment Corporation at their inception in 2010 and 2007, respectively. He also founded and became Managing Member of PennantPark Investment Advisers in January 2007. Mr. Penn co-founded Apollo Investment Management in 2004, where he was a Managing Partner from 2004 to 2006. He also served as Chief Operating Officer of Apollo Investment Corporation from its inception in 2004 to 2006 and served as President and Chief Operating Officer of that company in 2006. Mr. Penn was formerly a Managing Partner of Apollo Value Fund L.P. (formerly Apollo Distressed Investment Fund, L.P.) from 2003 to 2006. From 2002 to 2003, prior to joining Apollo, Mr. Penn was a Managing Director of CDC-IXIS Capital Markets. Mr. Penn previously served as Global Head of Leveraged Finance at UBS Warburg LLC (now UBS Investment Bank) from 1999 through 2001. Prior to joining UBS Warburg, Mr. Penn was Global Head of Fixed Income Capital markets for BT Securities and BT Alex Brown Incorporated from 1994 to 1999. From 1992 to 1994, Mr. Penn served as Head of High-Yield Capital Markets at Lehman Brothers.

***Executive Officer and Officer who are not Directors***

Aviv Efrat (51), Chief Financial Officer and Treasurer. Mr. Efrat became the Chief Financial Officer and Treasurer of PFLT and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Mr. Efrat is also a Managing Director of PennantPark Investment Administration, LLC. Mr. Efrat was a Director at BlackRock, Inc., where he was responsible for a variety of administrative, operational, and financial aspects of closed-end and open-end registered investment companies, from 1997 to 2007. From 1994 to 1997, Mr. Efrat was in the Investment Companies Business Unit at Deloitte & Touche LLP. He is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Guy F. Talarico (59), Chief Compliance Officer. Mr. Talarico became the Chief Compliance Officer of PFLT and PennantPark Investment Corporation in March 2011 and May 2008, respectively. Mr. Talarico has held the position of Chief Compliance Officer for a number of investment advisers, private funds and investment companies from 2004 when he founded Alaric Compliance Services, LLC.

**Committees of the Board of Directors**

For the fiscal year ended September 30, 2014, PFLT held five board of directors meetings, five Audit Committee meetings and one Nominating and Corporate Governance Committee Meeting and one Compensation Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the board of directors and of the respective committees on which they served. PFLT requires each director to make a diligent effort to attend all board of directors and committee meetings, and encourage directors to attend the annual stockholders meeting. For the fiscal year ended September 30, 2014, all of the directors attended the annual stockholders meeting.



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**Table of Contents****Audit Committee**

The members of the Audit Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and NASDAQ corporate governance rules. Messrs. Flug and Katz serve as Co-Chairmen of the Audit Committee. The Audit Committee operates pursuant to an Audit Committee Charter approved by the board of directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm (the auditors ) to audit PFLT's accounts and records; reviewing and discussing with management and the auditors PFLT's annual audited financial statements, including disclosures made in management's discussion and analysis of financial condition and results of operations, and recommending to the board of directors whether the audited financial statements should be included in PFLT's annual report on Form 10-K; reviewing and discussing with management and the auditors PFLT's quarterly financial statements prior to the filings of PFLT's quarterly reports on Form 10-Q; pre-approving the auditors' engagement to render audit and/or permissible non-audit services; reviewing and approving all related party transactions; and evaluating the qualifications, performance and independence of the auditors. The Audit Committee is also responsible for aiding PFLT's board of directors in fair valuing PFLT's portfolio securities that are not publicly traded or for which current market values are not readily available. The board of directors and Audit Committee use the services of nationally recognized independent valuation firms to help them determine the fair value of certain securities. PFLT's board of directors has determined that each of Messrs. Flug and Katz is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K under the Exchange Act. The Audit Committee Charter is available on PFLT's website [www.pennantpark.com](http://www.pennantpark.com).

**Nominating and Corporate Governance Committee**

The members of the Nominating and Corporate Governance Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and NASDAQ corporate governance rules. Messrs. Bernstein and Brozost serve as Co-Chairmen of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for selecting, researching and nominating directors for election by PFLT's stockholders, selecting nominees to fill vacancies on the board of directors or a committee of the board of directors, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the board of directors and PFLT's management. The Nominating and Corporate Governance Committee has adopted a written Nominating and Corporate Governance Committee Charter that is available on PFLT's website [www.pennantpark.com](http://www.pennantpark.com).

The Nominating and Corporate Governance Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with the Nominating and Corporate Governance Committee Charter and any applicable law, rule or regulation regarding director nominations. Correspondence regarding stockholders' recommendations for possible nominees should be sent to Thomas Friedmann, Secretary, c/o PennantPark Floating Rate Capital Ltd., 590 Madison Avenue, 15th Floor, New York, New York 10022. When submitting a suggested nomination to PFLT for consideration, a stockholder must provide all information that would be required under the PFLT bylaws in connection with a stockholder's nominee for director and applicable SEC rules to be disclosed in connection with election of a director, including the following minimum information for each suggested director nominee: full name, age and address; principal occupation during the past five years; directorships on publicly held companies and investment companies during the past five years; number of shares of PFLT Common Stock owned, if any; and a written consent of the individual to stand for election if nominated by the board of directors and to serve if elected by the stockholders.

Criteria considered by the Nominating and Corporate Governance Committee in evaluating the qualifications of individuals for election as director of the board of directors include compliance with the independence and other

applicable requirements of NASDAQ corporate governance rules and the 1940 Act, and all other applicable laws, rules, regulations and listing standards; the criteria, policies and principles set forth in PFLT's Nominating and Corporate Governance Committee Charter; and the ability to contribute to PFLT's

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effective management, taking into account its needs and such factors as the individual's experience, perspective, skills and knowledge of the industry in which PFLT operates. The Nominating and Corporate Governance Committee has not adopted a formal policy with regard to the consideration of diversity in identifying individuals for election as members of the board of directors, but the Nominating and Corporate Governance Committee will consider such factors as it may deem are in the best interests of PFLT and its stockholders. Those factors may include a person's differences of viewpoint, professional experience, education and skills, as well as his or her race, gender and national origin. In addition, as part of the board of directors' annual-self assessment, the members of the Nominating and Corporate Governance Committee evaluate the membership of the board of directors and whether the board of directors maintains satisfactory policies regarding membership selection.

**Compensation Committee**

The Compensation Committee is responsible for determining, or recommending to the board of directors for determining, the compensation of PFLT's chief executive officer and all other executive officers, paid directly by PFLT, if any. The Compensation Committee also assists the board of directors with all matters related to compensation, as directed by the board of directors. The current members of the Compensation Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and NASDAQ corporate governance rules. As discussed below, none of PFLT's executive officers is directly compensated by PFLT and, as a result, the Compensation Committee does not produce and/or review and report on executive compensation practices. The Compensation Committee Charter is available on PFLT's website [www.pennantpark.com](http://www.pennantpark.com).

**Compensation of Directors and Executive Officer**

The following table shows information regarding the compensation paid to PFLT's directors for the fiscal year ended September 30, 2014. No compensation is paid directly by PFLT to any of its interested directors or executive officers.

Name	Aggregate compensation from the Company	Pension or retirement benefits accrued as part of PFLT's expense <sup>(1)</sup>	Total paid to director/officer
<b>Independent directors</b>			
Adam K. Bernstein	\$ 58,750	None	\$ 58,750
Marshall Brozost	\$ 58,750	None	\$ 58,750
Jeffrey Flug	\$ 61,250	None	\$ 61,250
Samuel L. Katz	\$ 61,250	None	\$ 61,250
<b>Interested director</b>			
Arthur H. Penn	None	None	None
<b>Executive officer</b>			
Aviv Efrat <sup>(2)</sup>	None	None	None

(1) PFLT does not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits from PFLT.

(2) Mr. Efrat is an employee of the PFLT Administrator.



Each Independent Director receives an annual payment of \$50,000 for services performed on behalf of PFLT as a director. The Independent Directors also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board of directors meeting and receive \$500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting (unless combined with a board of directors meeting). In addition, each Co-Chairman of the Audit Committee receives an annual fee of \$3,750 and each Co-Chairman of any other committee receives an annual fee of \$1,250 for his additional services in these capacities. Also, PFLT has purchased directors and officers

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liability insurance on behalf of its directors and officers. Independent Directors have the option to receive their directors' fees paid in shares of PFLT Common Stock issued at a price per share equal to the greater of NAV or the market price at the time of payment. No compensation is expected to be paid to directors who are interested persons (as defined in the 1940 Act). Prior to May 7, 2014, each Independent Director received \$1,250 for services performed on behalf of PFLT as a director.

***Portfolio Managers, or Senior Investment Professionals, Biographical Information.***

The PFLT Investment Adviser has three experienced senior investment professionals in addition to Mr. Penn. These senior investment professionals of the PFLT Investment Adviser have worked together for many years, and average over 25 years of experience in the mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, PFLT's senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. PFLT believes this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides it with access to substantial investment opportunities across the capital markets. Below is a summary of their biographical information. PFLT's investment professionals receive no compensation from it. The compensation of these individuals is paid by the PFLT Investment Adviser and compensation includes a base salary and a bonus contingent upon past and future performance.

Jose A. Briones joined the PFLT Investment Adviser in December 2009. Previously, Mr. Briones was a Partner of Apollo Investment Management, L.P. and a member of its investment committee since 2006. He was a Managing Director with UBS Securities LLC in the Financial Sponsors and Leveraged Finance Group from 2001 to 2006. Prior to joining UBS he was a Vice President with JP Morgan in the Global Leveraged Finance Group from 1999 to 2001. From 1992 to 1999, Mr. Briones was a Vice President at BT Securities and BT Alex Brown Inc. in the Corporate Finance Department.

Salvatore Giannetti III joined the PFLT Investment Adviser in February 2007. Previously, Mr. Giannetti was a Partner in the private equity firm Wilton Ivy Partners since 2004. He was a Managing Director at UBS Securities LLC in its Financial Sponsors and Leveraged Finance Group from 2000 to 2001. From 1997 to 2000, Mr. Giannetti was a Managing Director in the Investment Banking Division at Deutsche Bank (joining BT Securities and BT Alex Brown Inc.). From 1986 to 1997, Mr. Giannetti worked in the Investment Banking, Syndicated Loan & Private Equity groups at Chase Securities Inc. and its predecessor firms, Chemical Securities and Manufacturers Hanover.

P. Whitridge Williams, Jr. joined the PFLT Investment Adviser in March 2007. Previously, Mr. Williams was a Managing Director in the Financial Sponsors and Leveraged Finance Group at UBS Securities LLC. Mr. Williams worked at UBS and predecessor firms, including Dillon Read and Co. Inc. from 1996 to 2007. During Mr. Williams' tenure at UBS, he spent four years as a senior member of the Telecom, Media and Technology Group.

In addition to managing PFLT's investments, as of September 30, 2014, PFLT's portfolio managers also managed investments on behalf of the following entities:

<b>Name</b>	<b>Entity</b>	<b>Investment Focus</b>	<b>Gross Assets (\$ in millions)</b>
PennantPark Investment Corporation	BDC	Primarily in U.S. middle-market companies in the form of senior secured loans, mezzanine debt and equity investments.	\$ 1,411

Other Managed Fund	Private Investment Fund	Other credit opportunities	\$	46
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The management and incentive fees payable by PennantPark Investment Corporation and the Other Managed Fund are based on the gross assets and performance of PennantPark Investment Corporation and the Other Managed Fund, respectively.

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS OF PFLT**

**PFLT Investment Management Agreement**

PFLT has entered into the PFLT Investment Management Agreement with the PFLT Investment Adviser under which it, subject to the overall supervision of PFLT's board of directors, manages the day-to-day operations of, and provides investment advisory services, to PFLT. Mr. Penn, PFLT's Chairman and Chief Executive Officer, is the managing member and a senior investment professional of, and has a financial and controlling interest in the PFLT Investment Adviser. PFLT, through the PFLT Investment Adviser, provides similar services to Funding I under its collateral management agreement. Funding I's collateral management agreement does not affect the management or incentive fees that PFLT pays to the PFLT Investment Adviser on a consolidated basis. Under the terms of the PFLT Investment Management Agreement, the PFLT Investment Adviser:

determines the composition of PFLT's portfolio, the nature and timing of the changes to its portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments PFLT makes (including performing due diligence on prospective portfolio companies)

closes and monitors the investments PFLT makes; and

provides PFLT with such other investment advisory, research and related services, as it may need from time to time.

PFLT's services under the PFLT Investment Management Agreement are not exclusive, and it is free to furnish similar services, without the prior approval of PFLT's stockholders or its board of directors, to other entities so long as its services to PFLT are not impaired. PFLT's board of directors monitors for any potential conflicts that may arise upon such a development. For providing these services, the PFLT Investment Adviser receives a fee, consisting of two components—a base management fee and an incentive fee, or collectively, Management Fees.

***Investment Advisory Fees***

The base management fee is calculated at an annual rate of 1.00% of PFLT's average adjusted gross assets, which equals its gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded delayed draw loans, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if PFLT sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, its gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the three and six months ended March 31, 2015, the PFLT Investment Adviser earned base management fees of \$0.9 million and \$1.7 million, respectively. For the three and six months ended March 31, 2014, the PFLT Investment Adviser earned base management fees of \$1.0 million and \$1.8

million, respectively. For the fiscal years ended September 30, 2014, 2013 and 2012, the PFLT Investment Adviser earned a base management fee of \$3.7 million, \$2.2 million and \$1.5 million, respectively.

The following is a hypothetical example of the calculation of average adjusted gross assets:

Gross assets as of December 31, 20XX = \$160 million

U.S. Treasury bills and temporary draws on credit facilities as of December 31, 20XX = \$10 million

Adjusted gross assets as of December 31, 20XX = \$150 million

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Gross assets as of March 31, 20XX = \$200 million

U.S. Treasury bills and temporary draws on credit facilities as of March 31, 20XX = \$20 million

Adjusted gross assets as of March 31, 20XX = \$180 million

Average value of adjusted gross assets as of March 31, 20XX 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 =  $(\$150 \text{ million} + \$180 \text{ million}) / 2 = \$165 \text{ million}$ .

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on PFLT's Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees, other than fees for providing managerial assistance, such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies accrued during the calendar quarter, minus PFLT's 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). PFLT's Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of PFLT's 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). PFLT pays the PFLT Investment Adviser an incentive fee with respect to the Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which PFLT's Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 50% of PFLT's 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) (this portion of the Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.9167%) is referred to as the catch-up, which is meant to provide the PFLT Investment Adviser with 20% of Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.9167% in any calendar quarter), and (3) 20% of the amount of PFLT's Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.9167% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the three and six months ended March 31, 2015, the PFLT Investment Adviser earned an incentive fee on net investment income as calculated under the PFLT Investment Management Agreement of \$1.0 million and \$1.7 million, respectively. For the three and six months ended March 31, 2014, the PFLT Investment Adviser earned an incentive fee on net investment income as calculated under the PFLT Investment Management Agreement of \$0.7 million and \$0.8 million, respectively. For the years ended September 30, 2014, 2013 and 2012, the PFLT Investment Adviser earned an incentive fee on net investment income as calculated under the PFLT Investment Management Agreement of \$2.6 million, \$1.5 million and \$0.3 million, respectively.

The following is a graphical representation of the calculation of quarterly incentive fee based on Pre-Incentive Fee Net Investment Income

***Pre-Incentive Fee Net Investment Income***

*(expressed as a percentage of the value of net assets)*

***Percentage of Pre-Incentive Fee Net Investment Income***

***allocated to income-related portion of incentive fee***

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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 PFLT Investment Management Agreement, as of the termination date) and equals 20.0% of realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the three and six months ended March 31, 2015, the PFLT Investment Adviser earned an incentive fee on capital gains of zero and \$(0.4) million, respectively, as calculated under the PFLT Investment Management Agreement. For the three and six months ended March 31, 2014, the PFLT Investment Adviser earned an incentive fee on capital gains of \$0.3 million and \$0.7 million, respectively, as calculated under the PFLT Investment Management Agreement (as described above). For the fiscal years ended September 30, 2014, 2013 and 2012 the PFLT Investment Adviser earned an incentive fee on capital gains of approximately \$0.8 million, zero and zero, respectively, as calculated under the PFLT Investment Management Agreement.

Under GAAP, PFLT is 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, PFLT 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 PFLT 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 PFLT records a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For the three and six months ended March 31, 2015, the PFLT Investment Adviser accrued an incentive fee on unrealized and realized capital gains as calculated under GAAP of \$0.3 million and \$(0.3) million, respectively. For the three and six months ended March 31, 2014, the PFLT Investment Adviser accrued an incentive fee on unrealized and realized capital gains as calculated under GAAP of \$0.4 million and \$0.6 million, respectively. For the years ended September 30, 2014, 2013 and 2012, the PFLT Investment Adviser accrued an incentive fee on unrealized and realized capital gains as calculated under GAAP of \$0.1 million, \$0.4 million and \$0.3 million, respectively.

**Examples of Quarterly Incentive Fee Calculation****Example 1: Income Related Portion of Incentive Fee (\*):****Alternative 1:***Assumptions*

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle <sup>(1)</sup> = 1.75%

Base management fee <sup>(2)</sup> = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) <sup>(3)</sup> = 0.20%

Pre-Incentive Fee Net Investment Income



(investment income (base management fee + other expenses)) = 0.80%

Pre-Incentive Fee Net Investment Income does not exceed hurdle; therefore there is no incentive fee.

**Alternative 2:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 2.70%

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Hurdle <sup>(1)</sup> = 1.75%

Base management fee <sup>(2)</sup> = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) <sup>(3)</sup> = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 2.25%

Incentive fee = 50% x Pre-Incentive Fee Net Investment Income, subject to catch-up  
 = 50% x (2.25% - 1.75%)  
 = 0.25%

**Alternative 3:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 4.00%

Hurdle <sup>(1)</sup> = 1.75%

Base management fee <sup>(2)</sup> = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) <sup>(3)</sup> = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 3.55%

Incentive fee = 20% x Pre-Incentive Fee Net Investment Income, subject to catch-up<sup>(4)</sup>  
 Incentive fee = 50% x catch-up + (20% x (Pre-Incentive Fee Net Investment Income - 2.9167%))  
 Catch-up = 2.9167% - 1.75%  
 = 1.1667%  
 = (50% x 1.1667%) + (20% x (3.55% - 2.9167%))  
 = 0.5833% + (20% x 0.6333%)  
 = 0.5833% + 0.1267%  
 = 0.71%

\* The hypothetical amount of Pre-Incentive Fee Net Investment Income shown is based on a percentage of total net assets.

- (1) Represents 7.0% annualized hurdle.
- (2) Represents 1.0% annualized base management fee.
- (3) Excludes organizational and offering expenses.

- (4) The catch-up provision is intended to provide the PFLT Investment Adviser with an incentive fee of approximately 20% on all of Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when PFLT's net investment income exceeds 2.9167% in any calendar quarter.

**Example 2: Capital Gains Portion of Incentive Fee:**

**Alternative 1:**

*Assumptions*

Year 1: \$20 million investment made in Company A ( Investment A ), and \$30 million investment made in Company B ( Investment B )

Year 2: Investment A sold for \$50 million and fair market value ( FMV ) of Investment B determined to be \$32 million

Year 3: FMV of Investment B determined to be \$25 million

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Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: \$6 million capital gains incentive fee

\$30 million realized capital gains on sale of Investment A multiplied by 20%

Year 3: None

\$5 million cumulative fee (20% multiplied by \$25 million (\$30 million cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million

(previous capital gains fee paid in Year 2)

Year 4: \$200,000 capital gains incentive fee

\$6.2 million cumulative fee (\$31 million cumulative realized capital gains multiplied by 20%) less \$6 million (previous capital gains fee paid in Year 2)

**Alternative 2**

*Assumptions*

Year 1: \$20 million investment made in Company A ( Investment A ), \$30 million investment made in Company B ( Investment B ) and \$25 million investment made in Company C ( Investment C )

Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million

Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million

Year 4: FMV of Investment B determined to be \$35 million

Year 5: Investment B sold for \$20 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: \$5 million capital gains incentive fee

20% multiplied by \$25 million (\$30 million realized capital gains on sale of Investment A less \$5 million unrealized capital depreciation on Investment B)

Year 3: \$1.4 million capital gains incentive fee <sup>(1)</sup>

\$6.4 million cumulative fee (20% multiplied by \$32 million (\$35 million cumulative realized capital gains less \$3 million unrealized capital depreciation)) less \$5 million (previous capital gains fee paid in Year 2)

Year 4: \$0.6 million capital gains incentive fee

\$7 million cumulative fee (20% multiplied by \$35 million (\$35 million cumulative realized capital gains without regard to \$5 million of unrealized appreciation)) less \$6.4 million (previous cumulative capital gains fee paid in Year 2 and Year 3)

Year 5: None

\$7 million cumulative fee (20% multiplied by \$35 million (\$35 million cumulative realized capital gains without regard to \$10 million realized capital losses in subsequent year)) less \$7 million (previous cumulative capital gains fee paid in Year 2, 3 and Year 4)

- (1) As illustrated in Year 3 of Alternative 2 above, if PennantPark Floating Rate Capital Ltd. were to be wound up on a date other than December 31 of any year, PennantPark Floating Rate Capital Ltd. may have paid aggregate capital gain incentive fees that are more than the amount of such fees that would be payable if PennantPark Floating Rate Capital Ltd. had been wound up on December 31 of such year.

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**Table of Contents*****Organization of the PFLT Investment Adviser***

The PFLT Investment Adviser is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. The principal executive office of the PFLT Investment Adviser is located at 590 Madison Avenue, 15th Floor, New York, NY 10022.

***Duration and Termination of the PFLT Investment Management Agreement***

The PFLT Investment Management Agreement was reapproved by PFLT's board of directors, including a majority of directors who are not interested persons of PFLT or the PFLT Investment Adviser, in February 2015. Unless terminated earlier as described below, the PFLT Investment Management Agreement will continue in effect for a period of one year through February 2016. It will remain in effect if approved annually by PFLT's board of directors, or by the affirmative vote of the holders of a majority of PFLT's outstanding voting securities, including, in either case, approval by a majority of directors who are not interested persons of PFLT or the PFLT Investment Adviser. In determining to reapprove the PFLT Investment Management Agreement, PFLT's board of directors requested information from the PFLT Investment Adviser that enabled it to evaluate a number of factors relevant to its determination. These factors included the nature, quality and extent of services performed by the PFLT Investment Adviser, PFLT's ability to manage conflicts of interest effectively, PFLT's short and long-term performance, PFLT's costs, including as compared to comparable externally and internally managed publicly traded BDCs that engage in similar investing activities, PFLT's profitability and any economies of scale. Based on the information reviewed and the considerations detailed above, PFLT's board of directors, including all directors who are not interested persons of PFLT or the PFLT Investment Adviser, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and reapproved the PFLT Investment Management Agreement as being in the best interests of PFLT's stockholders.

The PFLT Investment Management Agreement will automatically terminate in the event of its assignment. The PFLT Investment Management Agreement may be terminated by either party without penalty upon 60 days' written notice to the other. See Risk Factors Risks Relating to PFLT's Business and Structure PFLT is dependent upon the PFLT Investment Adviser's key personnel for its future success, and if the PFLT Investment Adviser is unable to hire and retain qualified personnel or if the PFLT Investment Adviser loses any member of its management team, PFLT's ability to achieve its investment objectives could be significantly harmed for more information.

***Administration Agreement***

Pursuant to the Administration Agreement, PFLT Administrator furnishes PFLT with office facilities, equipment and clerical, bookkeeping and record keeping services. Under the Administration Agreement, PFLT Administrator performs, or oversees the performance of, PFLT's required administrative services, which include, among other activities, being responsible for the financial records which PFLT is required to maintain and preparing reports to its stockholders and reports filed with the SEC. In addition, PFLT Administrator assists PFLT in determining and publishing its NAV, oversees the preparation and filing of tax returns and generally oversees the payment of expenses and the performance of administrative and professional services rendered to PFLT by others. For providing these services, facilities and personnel, PFLT has agreed to reimburse PFLT Administrator for its allocable portion of overhead and other expenses incurred by PFLT Administrator in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and PFLT's allocable portion of the cost of compensation and related expenses of its Chief Compliance Officer, Chief Financial Officer and their respective staffs. PFLT Administrator also offers on PFLT's behalf managerial assistance to portfolio companies to which PFLT is required to offer such assistance. To the extent that PFLT Administrator outsources any of its functions, PFLT will pay the fees associated with such functions on a direct basis without profit to PFLT Administrator. Reimbursement for certain of

these costs is included in administrative services expenses in the Consolidated Statement of Operations. For the three and six months ended March 31, 2015, the PFLT Investment Adviser was reimbursed approximately \$0.3 million and \$0.4 million, respectively, from PFLT, including expenses the PFLT Investment Adviser incurred on behalf of PFLT

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Administrator, for services described above. For the three and six months ended March 31, 2014, the PFLT Investment Adviser was reimbursed approximately \$0.3 million and \$0.4 million, respectively, from PFLT, including expenses the PFLT Investment Adviser incurred on behalf of PFLT Administrator, for services described above. For the years ended September 30, 2014, 2013 and 2012, the PFLT Investment Adviser was reimbursed approximately \$0.5 million, \$0.3 million and \$0.2 million, respectively, from PFLT, including expenses the PFLT Investment Adviser incurred on behalf of PFLT Administrator, for services described above.

### ***Duration and Termination of Administration Agreement***

The Administration Agreement was reapproved by PFLT's board of directors, including a majority of directors who are not interested persons of PFLT, in February 2015. Unless terminated earlier as described below, the Administration Agreement will continue in effect for a period of one year through February 2016. It will remain in effect if approved annually by PFLT's board of directors, or by the affirmative vote of the holders of a majority of PFLT's outstanding voting securities, including, in either case, approval by a majority of directors who are not interested persons of PFLT. The Administration Agreement may not be assigned by either party without the consent of the other party. The Administration Agreement may be terminated by either party without penalty upon 60 days written notice to the other.

### ***Indemnification***

The PFLT Investment Management Agreement and Administration Agreement provide that, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations, the PFLT Investment Adviser and PFLT Administrator and their respective officers, manager, partners, agents, employees, controlling persons, members and any other person or entity affiliated with them are entitled to indemnification from PFLT for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the PFLT Investment Adviser's and PFLT Administrator's services under the PFLT Investment Management Agreement or Administration Agreement or otherwise as investment adviser or administrator for PFLT.

### **License Agreement**

PFLT has entered into a license agreement with the PFLT Investment Adviser pursuant to which the PFLT Investment Adviser has granted PFLT a royalty-free, non-exclusive license to use the name PennantPark. Under this agreement, PFLT has a right to use the PennantPark name, for so long as the PFLT Investment Adviser or one of its affiliates remains PFLT's investment adviser. Other than with respect to this limited license, PFLT has no legal right to the PennantPark name.



**Table of Contents****CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS OF PFLT**

As of May 6, 2015, to PFLT's knowledge, no person would be deemed to control PFLT, as such term is defined in the 1940 Act. PFLT's board of directors consists of an interested director and Independent Directors.

The following table sets forth, as of May 6, 2015, certain ownership information with respect to PFLT Common Stock for those persons who directly or indirectly own, control or hold with the power to vote, 5 percent or more of the outstanding PFLT Common Stock and all officers and directors, as a group.

<b>Name and address <sup>(1)</sup></b>	<b>Type of ownership <sup>(2)</sup></b>	<b>Shares owned</b>	<b>Percentage of Common Stock Outstanding</b>
<b>Greater than 5% shareholder</b>			
Jack Silver <sup>(3)</sup>	Record/Beneficial	791,336	5.3%
<b>Independent directors</b>			
Adam K. Bernstein	Record/Beneficial	5,000	*
Marshall Brozost	Record/Beneficial		
Jeffrey Flug	Record/Beneficial		
Samuel L. Katz	Record/Beneficial	69,800	*
<b>Interested director</b>			
Arthur H. Penn <sup>(4)</sup>	Record/Beneficial	149,209	1.0%
<b>Executive officer</b>			
Aviv Efrat	Record/Beneficial	13,750	*
All directors and executive officer as a group (6 persons)	Record/Beneficial	237,759	1.6%

(1) The address for each officer and director is c/o PennantPark Floating Rate Capital Ltd., 590 Madison Avenue, 15th Floor, New York, New York 10022.

(2) Sole voting power.

(3) The information provided is derived from Schedule 13G filed February 9, 2015 by Mr. Jack Silver. Such securities are held by certain investment vehicles controlled and/or managed by Mr. Silver. The address for Mr. Silver is 80 Columbus Circle PH76A, New York, New York 10023.

(4) Mr. Penn is the Managing Member of PennantPark Investment Advisers, LLC and may therefore be deemed to own beneficially the 149,209 shares held by PennantPark Investment Advisers, LLC.

\* Less than 1 percent.

**Table of Contents*****Dollar Range of Securities Beneficially Owned by Directors, Officers and Senior Investment Professionals***

The following table sets forth the dollar range of PFLT Common Stock beneficially owned by each of PFLT's directors, officers and senior investment professionals as of May 6, 2015. Information as to the beneficial ownerships is based on information furnished to PFLT by such persons. PFLT is not part of a family of investment companies, as that term is defined in the 1940 Act.

<b>Directors</b>	<b>Dollar Range of the Common Stock of PFLT <sup>(1)</sup></b>
<b>Independent directors</b>	
Adam K. Bernstein	\$ 50,001 - \$100,000
Marshall Brozost	None
Jeffrey Flug	None
Samuel L. Katz	\$500,001 - \$1,000,000
<b>Interested director</b>	
Arthur H. Penn <sup>(2)</sup>	Over \$1,000,000
<b>Senior Investment Professionals</b>	
Jose A. Briones	Over \$1,000,000
Salvatore Giannetti III	Over \$1,000,000
P. Whitridge Williams, Jr.	Over \$1,000,000

(1) Dollar ranges are as follows: None; \$1-\$10,000; \$10,001-\$50,000; \$50,001-\$100,000; \$100,001-\$500,000; \$500,001-\$1,000,000; or over \$1,000,000.

(2) Also reflects holdings of PennantPark Investment Advisers, LLC.

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**BUSINESS OF MCG**

**General**

MCG is a solutions-focused commercial finance company that provides capital and advisory services to lower middle-market companies throughout the United States. Generally, MCG's portfolio companies use MCG's capital investment to finance acquisitions, recapitalizations, buyouts, organic growth, working capital and other general corporate purposes.

MCG is an internally managed, non-diversified, closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. As a BDC MCG must meet various regulatory tests, which include investing at least 70% of its total assets in private or thinly traded public U.S.-based companies and limitations on MCG's ability to incur indebtedness unless immediately after such borrowing MCG has an asset coverage for total borrowings of at least 200% (i.e., the amount of debt generally may not exceed 50% of the value of MCG's assets).

In addition, MCG has elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. In order to continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, MCG must meet certain requirements, including certain minimum distribution requirements. If the company satisfies these requirements, MCG generally will not have to pay corporate-level taxes on any income it distributes to its stockholders as distributions, allowing MCG to substantially reduce or eliminate its corporate-level tax liability. From time to time, MCG's wholly owned subsidiaries may execute transactions that trigger corporate-level tax liabilities. In such cases, MCG recognizes a tax provision in the period when it becomes more likely than not that the taxable event will occur.

**Corporate Structure**

MCG makes certain of its investments through wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to hold the assets of one or more of MCG's portfolio companies. Some of these subsidiaries in turn have wholly owned subsidiaries, all of which are Delaware corporations that hold the assets of certain of MCG's portfolio companies.

**Company Background**

MCG was incorporated in Delaware in 1998. On March 18, 1998, MCG changed its name from MCG, Inc. to MCG Credit Corporation and, on June 14, 2001, to MCG Capital Corporation. MCG's principal executive offices are located at 1001 19th Street North, 10th Floor, Arlington, VA 22209 and its telephone number is (703) 247-7500.

MCG is subject to the informational requirements of the Exchange Act and, accordingly, files reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information can be read and copied at the public reference facilities maintained by the SEC at the Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

MCG's Internet address is [www.mcgcapital.com](http://www.mcgcapital.com). MCG is not including the information contained on its website as a part of, or incorporating it by reference into, this joint proxy statement and prospectus. MCG makes available free of charge on its website its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as

soon as reasonably practicable after it electronically files such material with, or furnish it to, the SEC.

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MCG's logo, trademarks and service marks are the property of MCG. Other trademarks or service marks appearing in this joint proxy statement and prospectus are the property of their respective holders.

**MCG's Investment Portfolio**

As of March 31, 2015, the majority of MCG's investment portfolio consists of loans to lower middle-market companies that generate annual revenue of less than \$200 million and earnings before interest, taxes, depreciation and amortization, or EBITDA, in the range of \$3-\$15 million. Generally, MCG's portfolio companies use its capital investments to finance acquisitions, recapitalizations and buyouts, as well as for organic growth and working capital. MCG identifies and sources new portfolio companies through multiple channels, including private equity sponsors, investment bankers, brokers, fund-less sponsors, institutional syndication partners, owner operators, and other club lenders that facilitate peer-to-peer loans. MCG generally invests in some combination of senior debt, second-lien debt, secured and unsecured subordinated debt and equity.

As of March 31, 2015, MCG had debt and equity investments in five portfolio companies with a combined fair value of \$50.1 million. The following table summarizes the fair value and revenue contributions of MCG's current investments.

(dollars in thousands)		Interest Rate <sup>(3)</sup>						Fair
Portfolio Company	Industry	Investment	Current	PIK	Total	Principal	Cost	Value
Broadview Networks Holdings, Inc. <sup>(4)</sup>	Communications	Common Stock (132,779 shares) <sup>(2)</sup>					\$ 159,579	\$ 235
		Series A-1 Warrant to purchase Common Stock (expire 11/20) <sup>(2)</sup>						
		Series A-2 Warrant to purchase Common Stock (expire 11/20) <sup>(2)</sup>						
C7 Data Centers, Inc.	Business Services	Senior Debt (Due 9/19)	9.5%		9.5%	\$ 14,341	14,182	14,182
GMC Television Broadcasting, LLC <sup>(1)</sup>	Broadcasting	Senior Debt (Due 12/16)	4.3%		4.3%	10,203	7,877	9,226
Pharmalogic Holdings Corp. <sup>(5)</sup>	Healthcare	Senior Debt (Due 12/17)	8.5%		8.5%	17,500	17,500	17,500
South Bay Mental Health Center, Inc.	Healthcare	Subordinated Debt (Due 10/17)	12.0%	2.5%	14.5%	9,088	8,991	8,991

**Total Investments**

**\$ 208,129 \$ 50,134**

- (1) Includes securities issued by one or more of the portfolio company's affiliates.
- (2) Equity security is non-income producing at period-end.
- (3) Interest rates represent the weighted-average annual stated interest rate on debt securities, presented by nature of indebtedness for a single issuer. PIK interest represents contractually deferred interest that is generally added to the principal balance of the debt security and compounded if contractually required and not paid on a current basis. PIK may be prepaid by either contract or the portfolio company's choice, but generally is paid at the end of the loan term. Rates on preferred stock and preferred LLC interests, where applicable, represent the contractual rate.
- (4) Broadview Networks Holdings, Inc.'s financial statements are currently publicly available and may be accessed on-line using either the company's website ([www.broadviewnet.com](http://www.broadviewnet.com)) or using the EDGAR System available on the SEC's website ([www.sec.gov](http://www.sec.gov)). In April 2015, MCG entered into an agreement to sell its equity investments in Broadview Networks Holdings, Inc. for \$235 thousand and the sale was completed in April 2015.
- (5) In connection with the sale of RadioPharmacy, MCG amended and restated its existing senior secured debt and provided first lien financing consisting of a \$17.5 million term loan and a \$1.0 million revolver at an interest rate of 8.5% due in December 2017.

In addition to its portfolio investments, as of March 31, 2015, MCG had cash and cash equivalents of \$115.8 million, or 64.0% of its total assets.

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The following table summarizes the composition of MCG's investment portfolio as of March 31, 2015 and December 31, 2014 at fair value:

<i>(dollars in thousands)</i>	COST BASIS				FAIR VALUE BASIS			
	March 31, 2015		December 31, 2014		March 31, 2015		December 31, 2014	
	Investment at Cost	% of Total Portfolio	Investment at Cost	% of Total Portfolio	Investment at Fair Value	% of Total Portfolio	Investment at Fair Value	% of Total Portfolio
<b>Debt Investments</b>								
Senior secured debt	\$ 39,559	19.0%	\$ 39,237	16.7%	\$ 40,908	81.6%	\$ 40,562	53.8%
Subordinated secured debt	8,991	4.3	22,460	9.6	8,991	17.9	22,460	29.8
<b>Total debt investments</b>	<b>48,550</b>	<b>23.3</b>	<b>61,697</b>	<b>26.3</b>	<b>49,899</b>	<b>99.5</b>	<b>63,022</b>	<b>83.6</b>
<b>Equity investments</b>								
Preferred			13,364	5.7			12,044	16.0
Common/common equivalents	159,579	76.7	159,579	68.0	235	0.5	266	0.4
<b>Total equity investments</b>	<b>159,579</b>	<b>76.7</b>	<b>172,943</b>	<b>73.7</b>	<b>235</b>	<b>0.5</b>	<b>12,310</b>	<b>16.4</b>
<b>Total investments</b>	<b>\$ 208,129</b>	<b>100.0%</b>	<b>\$ 234,640</b>	<b>100.0%</b>	<b>\$ 50,134</b>	<b>100.0%</b>	<b>\$ 75,332</b>	<b>100.0%</b>

MCG's debt instruments bear contractual interest rates ranging from 4.3% to 14.5%, a portion of which may be deferred. As of March 31, 2015, approximately 82.0% of the fair value of MCG's loan portfolio had variable interest rates, based on either LIBOR, or the prime rate, and 18.0% of the fair value of its loan portfolio had fixed interest rates. As of March 31, 2015, approximately 62.9% of the fair value of MCG's loan portfolio had LIBOR floors of 2.0% on a LIBOR-based index or prime floors between 2.0% and 3.3%. At origination, MCG's loans generally have four- to six-year stated maturities. Borrowers typically pay an origination fee based on a percent of the total commitment and a fee on undrawn commitments.

From time to time, MCG makes equity investments in companies in which it has also made debt investments. MCG's equity investments include preferred stock, common stock and warrants and, in many cases, board observation rights. MCG may invest across the capital structure of its portfolio companies using a combination of debt and equity investments to meet its portfolio companies' needs and achieve favorable risk-adjusted returns.

In January 2015, MCG entered into a merger agreement to sell its largest equity investment, Pharmalogic Holdings Corp., a subsidiary of RadioPharmacy Investors, LLC. This transaction closed on March 31, 2015. Upon consummation of this transaction, MCG has exited all of its control investments.

In April 2015, MCG entered into an agreement to sell its equity investments in Broadview Networks Holdings, Inc. and the sale was completed on April 29, 2015. Upon consummation of this transaction, MCG has exited all of its equity investments.

## **Competition**

MCG competes with many types of investors for the portfolio companies in which it invests, including public and private funds (including other BDCs), commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds or hedge funds. As a result of these entrants, competition for investment opportunities has intensified in recent years and may intensify further in the future. A majority of MCG's competitors are substantially larger and have considerably greater financial, technical and marketing resources than MCG does. Some may also have a lower cost of funds and access to funding sources that are not available to MCG. In addition, some of MCG's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments that may lead to additional market share and a competitive advantage over MCG. Unlike many of its competitors, MCG is also subject to the regulatory restrictions and valuation requirements that the 1940 Act imposes on MCG as a BDC.



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The myriad competitive pressures MCG faces requires its management team to develop and maintain strong relationships with intermediaries, financial institutions, investment bankers, commercial bankers, financial advisors, attorneys, accountants, consultants and other individuals within its network in order to keep apprised of potential investment opportunities. MCG has experienced significant executive turnover and staff reductions while it monetized a majority of its investments and repurchased its common stock in the open market, which MCG believes has negatively impacted its ability to remain active investors with current or prospective clients. If MCG's management team fails to maintain its existing relationships or develop new ones with important sources of investment opportunities, the company may fail to remain competitive for new business or to generate positive net operating income and its investment portfolio may languish as a result. Regardless of the strength of relationships, no one is obligated to provide MCG with investment opportunities, and there is no assurance that such relationships will generate investment opportunities for the company.

While MCG does not seek to compete primarily based on the interest rates it offers, MCG may lose investment opportunities if it does not match its competitors' pricing, terms and structure. If MCG does match its competitors' pricing, terms and structure to win business, it may then experience a decrease in investment income resulting from lower net earning assets. MCG may be precluded from taking advantage of attractive investment opportunities from time to time as a result of an inability to meet market terms, and the company can offer no assurance that it will be able to identify and successfully make investments that are consistent with its investment objective. Failure to compete effectively for, and establish strong relationships that could lead to, new business would have a material adverse effect on MCG's business, financial condition and results of operations.

**Life Cycle of Debt and Equity Originations**

The key aspects of MCG's portfolio origination, servicing and monitoring process are set forth below. For each investment, MCG continues to evaluate investment risks and exposure relative to the amount of its total assets and NAV and make adjustments as the company deems prudent. Generally, MCG intends to keep the amount of its investment in any one company at or below \$15 million, which it may accomplish by selling a portion of its initial investment to another investor post-close. MCG generally makes loans with four- to six-year stated maturities. The company believes the market-average hold period of a loan is approximately three years, although that figure has declined. MCG's equity investments generally do not have maturity dates.

**Investment Objective And Strategies**

MCG's investment objective is to achieve attractive returns by generating current income and capital gains on its investments. MCG seeks to increase its earnings and NAV by investing principally in debt or equity securities of lower middle-market companies or syndicated loans. MCG intends to earn interest, dividends and fees on its investments and it may report unrealized appreciation and depreciation as the fair value of its investments periodically increases or decreases. MCG realizes capital gains or losses when the investment is eventually monetized.

The cost basis of MCG's investments include unamortized original issue discount, premiums and fees, as well as payment-in-kind, or PIK, interest and dividends that are generally due at maturity or upon its exit from the investment.

When MCG originates debt and equity investments, it strives to achieve favorable risk-adjusted rates of return in the form of current income and capital gains, while maintaining credit and investment quality in its portfolio. Before making investments, MCG applies well established credit processes to assess investment risk and it structures and prices its investments accordingly. MCG has developed proprietary analytics, data and knowledge to support its business activities. MCG designed its investment process to achieve the following strategic objectives:

generate favorable risk-adjusted rates of return by delivering capital and strategic insight to increase its portfolio companies' enterprise value;

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maintain sound credit and investment discipline and pricing practices, regardless of market conditions, to avoid adverse investment selection; and

manage risk by utilizing an integrated team approach to business development, underwriting and investment management.

MCG maintains a flexible approach to funding that permits it to adjust price, maturity and other transaction terms to accommodate the needs of its portfolio companies.

## **Organization Of MCG's Investment Professionals**

MCG's organization includes experienced professionals who originate, underwrite, finance, syndicate, monitor and monetize investments. MCG's professional staff also provides accounting, finance, human resources, investor relations, legal, compliance and corporate governance functions critical to its business. As of March 31, 2015, MCG has six full time employees serving cross-functional roles in support of its business. The following bullets describe the key functional teams that are responsible for MCG's investment processes:

**Investment Management** MCG's investment professionals are responsible for identifying and performing a financial and risk analysis of potential investment opportunities. They also underwrite and manage MCG's investment portfolio and lead any work-out or restructuring that may occur from time to time. After an investment is approved and funded, a cross-functional team manages and monitors the performance of MCG's investments.

**Credit Committee** Prospective investments are presented to MCG's credit committee for review and approval prior to issuing a term sheet. Final approval by the credit committee generally occurs after the deal team has substantially completed the underwriting process. The credit committee includes MCG's Chief Executive Officer and General Counsel. MCG's board of directors has delegated authority to the credit committee to (i) originate, underwrite and fund any non-control, non-distressed investment of \$15 million or less provided that the equity component does not exceed \$3 million, (ii) originate any distressed investment of \$5 million or less and (iii) increase any existing investment previously approved by the company's investment and valuation committee up to a certain over-line or established amount. As a matter of practice, MCG's board of directors is invited to participate at every credit committee meeting and in the review and approval of all investments, irrespective of investment size.

**Investment and Valuation Committee of the Board of Directors** The investment and valuation committee reviews and approves all investments over \$15 million and has the discretion to review and approve other investments. Subsequent to the review and funding of an investment, the investment and valuation committee makes recommendations that are used by MCG's board of directors for its quarterly determination of the fair value of its investment portfolio.

## **Business Development**

MCG and its predecessors have been active investors in lower middle-market companies since 1990. MCG believes that its experience in lower middle-market investing is a meaningful competitive advantage that it uses to operate its business. MCG's senior investment professionals and members of its credit committee have extensive experience

investing in lower middle-market companies and in industries that MCG targets, such as healthcare, business services, technology, software, information services and consumer directed businesses.

MCG's investment professionals identify and source new investments through multiple channels, including private equity sponsors, investment bankers, brokers, fund-less sponsors, institutional syndication partners, other club lenders and owner-operators. MCG's investment professionals also market to prospective portfolio companies identified through past relationships with executives, information gathered through proprietary and public research and relationships with accountants, lawyers and other professionals.

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Once MCG identifies a prospective portfolio company, MCG reviews its financial reports, business plan, corporate activities and other relevant information gathered from third-party databases, industry reports and publications. MCG focuses on a company's fundamental performance against industry conditions and operational benchmarks, and evaluate acceptable risks and returns. MCG works with its current and prospective portfolio companies to understand their business, as well as the costs and benefits of their corporate development initiatives, opportunities and competition. MCG's detailed analysis allows it to support its portfolio companies' corporate development decisions, even in some cases where short-term financial ratios or other metrics may decline temporarily.

## **Risk Analysis**

After identifying a prospective investment, MCG reviews the company's operating history, executive leadership team, opportunities and the market for the company's products and services during the life of its investment, as well as the potential risks and threats to the business or the markets in which it competes. As early as possible in the process, MCG generally conducts on-site meetings with key executives to learn more about the investment directly from the company's leadership team and tour the company's key facilities or operating locations.

To assess the validity and stability of the company's historical and projected financial performance MCG often, either itself or through a third-party firm, performs a review of quality of earnings. For select transactions, MCG may engage or rely on the research of industry specific due diligence firms that provide market research or insights that it judges as prudent or helpful in the underwriting process.

Based on MCG's experience, it also looks at the company's capitalization, proposed sources and uses of proceeds, structural considerations of various securities in the capital structure, leverage, expected cash generation, affirmative and negative covenants, methods for repayment or exit from the investment and other important considerations specific to the investment.

In particular, MCG analyzes certain key risks in light of its underwriting criteria, including financial characteristics and portfolio-specific risk that might arise from the new investment, including, but not limited to, the following:

**Industry Risks** maturity, cyclicity and seasonality associated with the industries in which MCG invests, as well as the proportion of MCG's portfolio that is invested in specific industries and individual portfolio companies;

**Competitive Risks** strengths and weaknesses of the prospective portfolio company relative to their competitors' pricing, product quality, customer loyalty, substitution and switching costs, brand positioning and capitalization. MCG also assesses the defensibility of a prospect's market position and its opportunity for increasing market share;

**Management Risks** track records, industry experience, turnover in leadership, concentration of knowledge, the prospective portfolio company's business plan and management incentives;

**Regulatory Risks** industry specific regulation and regulation reform (e.g., healthcare reform, increased regulatory oversight, government reimbursement of for-profit schools, etc.), and economic or macro issues

that may affect an investment (e.g., cost of utilities or access to power at historical rates in certain regions, access to nuclear materials for medical imaging, etc.), as well as regulations that may change the incentives of partners or investors in the investment (e.g., tax reform that may impact private equity funds or hedge funds, regulations of commercial banks, and potential reforms of BDCs);

Customer Concentration and Market Risks sustainability, stability and opportunities for the growth of the prospective portfolio company's customer base, including the number and size of its customers, attrition rates and dependence on one or a limited number of customers; and

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**Technology Risks** impact of technological advances in the industries and portfolio companies in which MCG may invest.

In addition, MCG evaluates industry-specific comparisons, such as cash flow margins, product and cash flow diversification, revenue growth rates, cost structure and other operating benchmarks that are derived from historical and projected financial statements. Qualitative attributes MCG evaluates may include management skill and depth, industry risk, substitution risk, sensitivity to economic cycles, cyclicity, geographic diversification, facilities infrastructure, administration requirements and product quality and ranking.

MCG has developed a series of valuation techniques to determine the risk of a potential investment and quantifying its underlying value. Analyses of comparative public and private market transactions and other data form the basis of MCG's enterprise valuations, along with current and projected market conditions. MCG also looks to comparable public companies to benchmark the value of the proposed investment using public market data. Using these methods provides multiple views of the value of the enterprise allowing MCG to calculate certain metrics used in both risk assessment and product pricing, such as loan-to-value ratios for its debt investments.

## **Underwriting And Risk Management**

MCG initiates its underwriting process in tandem with the business development process, focusing on investment risk analysis. MCG performs standard due diligence on a prospective portfolio company's financial performance, as well as customized analyses of its operations, systems, accounting policies, human resources and competitive, legal and regulatory environments.

In addition to gaining an in-depth understanding of a prospective portfolio company, MCG's research and due diligence process evaluates industry-wide operational, strategic and valuation issues. MCG also examines emerging trends and competitive threats to the portfolio company, as well as the industry in which it operates. Portfolio companies may later draw on MCG's valuable knowledge and insight obtained through its research to refine their strategic plans, identify acquisition opportunities and set appropriate financial and operational goals.

When presenting a prospective investment to MCG's credit committee for approval, MCG's investment professionals deliver a detailed investment memorandum. Should the dollar amount of the proposed investment exceed certain pre-defined thresholds, or include a significant investment in equity, the investment memorandum is also submitted to the investment and valuation committee of MCG's board of directors for review and approval. The investment memorandum generally consists of the following:

a transaction overview, including a description of the business and the investment opportunity;

transaction rationale, underwriting considerations and an assessment of risks and mitigants;

historical financial analyses, projections and scenario modeling;

a service or product overview, customer and industry analyses, operational and regulatory analyses;

an assessment of the company's enterprise valuation relative to comparable public and private companies;

a description of the capital structure and the investment risk and return characteristics; and

a review of insights or reports obtained from third-party experts or due diligence firms.

**Investment Structure**

MCG evaluates its portfolio companies' needs to develop investment structures that meet their capital requirements and business plans while protecting MCG's own capital, with an expectation toward generating risk-adjusted returns through current income on its loans and capital gains on its equity investments. MCG structures its debt investments to mitigate risk by requiring appropriate financial and collateral coverage



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thresholds. To create the most effective and responsive deal structures, MCG considers payment priority, collateral or asset value, and financial support from guarantors and other credit enhancements. Since MCG's investments typically include cash-flow loans, rather than asset-backed loans, MCG factors the enterprise value of the prospective portfolio company's assets into its credit decisions. For loans classified as senior secured, second-lien and subordinated secured, MCG receives a security interest in all or a portion of the portfolio companies' tangible and intangible assets, entitling it to a preferred position relative to both unsecured creditors and more junior lenders on the proceeds of those assets in the event of liquidation. In addition, MCG's loan documents generally include affirmative covenants that require its portfolio companies to provide periodic financial information, notification of material events and compliance with laws, as well as restrictive covenants that prevent the portfolio company from taking a range of significant actions, such as incurring additional indebtedness or making acquisitions. Financial covenants require the portfolio companies to maintain or achieve specified financial ratios, such as cash flow leverage, interest charge coverage, total charge coverage, and, in certain cases, meet specific operational benchmarks.

MCG's business strategy dictates that it generally invests in some combination of the following securities:

**Senior Secured Debt** MCG provides cash flow based senior secured debt in the form of revolving credit facilities as well as amortizing term loans, bullet maturity term loans and uni-tranche loans that blend characteristics of both senior and subordinated financing. Senior secured debt ranks senior in priority of payment to other debt and equity, and benefits from a first priority security interest in the assets of the borrower that serve as collateral for the loan(s). As such, virtually all other creditors rank junior to senior secured debt in the event of insolvency. Some of MCG's borrowers grant a first lien on working capital collateral (i.e., receivables) to asset-based lenders that is outside of MCG's collateral pool. Assuming that MCG has a first lien on all other collateral, in such cases MCG would still classify its security as senior secured. Due to its lower risk profile and often more restrictive covenants as compared to other debt, senior secured debt generally earns a lower return.

**Second-Lien Debt** MCG provides second-lien term loans on a sole-source or participant basis where assets or enterprise-value based borrowing capacity is not readily available within typical senior debt leverage constraints. Second-lien debt ranks senior in priority of payment to subordinated debt, unsecured debt, select junior securities, and equity. While second lien debt benefits from a collateral interest in the assets of the borrower, its liens are subordinated to those of senior secured debt in a liquidation. As such, senior secured creditors rank ahead of second lien creditors in the event of insolvency with respect to pursuing remedies against the collateral of a portfolio company, and receiving the proceeds thereof. Due to its higher risk profile and often less restrictive covenants as compared to senior debt, second-lien debt generally earns a higher return than senior debt. MCG classifies second-lien term loans as Subordinated Secured debt in its consolidated financial statements.

**Secured and Unsecured Subordinated Debt** MCG invests in secured and unsecured subordinated debt, which may be structured with a combination of current interest, deferred interest and equity-linked components. Payment of all subordinated debt, whether secured or unsecured, ranks behind payment of senior secured and second-lien debt. While the security interest of subordinated secured debt ranks behind that of the senior secured and second-lien debt, subordinated unsecured debt enjoys no security interest in the borrower's assets. In the event of insolvency, senior secured and second-lien creditors will be paid in full before the subordinated secured and subordinated unsecured creditors. Due to its higher risk profile and often less

restrictive covenants as compared to other types of loans, subordinated debt generally earns a higher return than other debt.

Equity MCG principally invests in equity securities of private companies or collateralized loan structures. From time to time it may invest in equity securities of public companies. In addition, MCG may receive warrants to purchase preferred or common stock of a portfolio company that are related to MCG's debt investments in such portfolio company. Preferred stock ranks senior to common stock, and often carries the right to receive a preferential return upon the sale of the company.

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To protect its investments and maximize its returns, MCG negotiates carefully the structure of each debt and equity security in its investment portfolio, and may require board observation rights as part of its initial investment to keep abreast of company matters. MCG's loan and equity documentation generally includes terms governing interest rate, amortization, prepayment premiums, financial covenants, operating covenants, ownership and corporate governance parameters, dilution parameters, liquidation preferences, voting rights, and put or call rights. In some cases, MCG's loan agreements also allow for interest rate increases and decreases to the extent the portfolio company's financial or operational performance varies materially from the portfolio company's business plan.

In addition to capital, MCG also offers managerial assistance to its portfolio companies. Typically, this assistance involves strategic advice, evaluation of business plans, financial modeling assistance and industry research and expertise. Providing assistance to its portfolio companies enables MCG to maximize its value proposition for its portfolio companies, which, in turn, helps maximize its investment returns.

## **Investment Approval Process**

MCG's investment approval process begins with an initial screening of a business plan or financing solicitation by one of its investment professionals to assess eligibility, sector, risk profile, investment fit and expected returns. MCG's investment professionals meet regularly with the members of its credit committee to discuss new opportunities. Simultaneously, a non-binding indication of interest may also be executed in support of a private equity firm issuing a bid for the transaction. Deals are judged by, among other things, a prospect's revenue run rate, continuity of solid cash flow, percentage of recurring revenue, gross profit margin, bad debt as a percentage of revenue, customer renewal rate, the prospect's marketing niche, level of competition, customer base quality and concentration and strength of the management team.

The credit committee determines whether the investment should be pursued, giving consideration to the risk return profile, industry concentrations and general economic outlook for the sector in which the business operates. In these meetings the credit committee also offers insight into key issues that must be resolved before a potential investment is funded. If the credit committee agrees to move forward with an investment, the terms are documented initially by a signed term sheet or letter of intent, as applicable, consistent with the pipeline report and committee clearance, and the deal proceeds to the documentation stage. The term sheet establishes the terms and conditions under which MCG proposes to enter into a credit or investment relationship.

Generally, MCG's underwriting process begins after its investment professionals receive a signed term sheet or letter of intent. The assigned investment professional is responsible for oversight and completion of comprehensive due diligence, and is expected to investigate and report on all critical aspects of the proposed investment. MCG's due diligence often includes review of financial statements, discussion with key members of management, review of material contracts, background checks, reviews of customer and vendor relationships, confirmation of historical results and assumptions underlying forecasted results. When necessary or advisable based on industry or the history of the prospect itself, third party diligence is conducted. The underwriting process includes legal and business due diligence and typically an on-site visit with the prospect company, including its management team and any other key employees.

Once the underwriting process is complete, the investment professional responsible for the deal presents a credit approval memorandum, including detailed findings of the foregoing underwriting process, to the credit committee and, if required, the investment and valuation committee. If approved, the deal proceeds to final documentation and closure. All of MCG's investments are approved by its credit committee. In addition, investments of over \$15 million must also be approved by the investment and valuation committee of MCG's board of directors.



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### **Investment Funding**

MCG funds its investments using cash from its balance sheet. As a BDC, MCG is subject to certain restrictions on incurring debt. For example, MCG is not permitted to incur indebtedness unless immediately after such borrowing it meets a coverage ratio of total assets to total senior securities (which include all borrowings and any preferred stock MCG has then issued) of at least 200%.

### **Investment Monitoring And Restructuring**

MCG monitors the status and financial performance of each company in its portfolio in order to evaluate overall portfolio quality and to facilitate quarterly valuations, which are approved by its board of directors. MCG is proactive in advising and communicating with companies that are underperforming and, in many instances, have added stricter covenant protection and rights over time. During the process of monitoring a loan in default, if required or necessary to protect its security interest, MCG will send a notice of non-compliance outlining the specific defaults that have occurred and preserving its contractual rights and remedies, followed by a review of the collateral, if any.

When its attempts to collect past due principal and/or interest on a loan are unsuccessful, MCG analyzes the appropriate course of action. In some cases, MCG may consider restructuring the investment to better reflect the current financial performance of the portfolio company. MCG may need to extend liquidity to companies from time to time as part of a restructuring. Such a restructuring may, among other things, involve deferring principal and interest payments, adjusting interest rates or warrant positions, imposing additional fees, amending financial or operating covenants or converting debt to equity. In connection with a restructuring, MCG generally receives compensation from the portfolio company. When a restructuring is not an appropriate course of additional action, MCG generally pursues the remedies available to it to minimize potential losses, including initiating foreclosure, liquidation proceedings or selling the loan.

When one of its loans becomes more than 90 days past due, or if MCG otherwise does not expect the portfolio company to be able to service its debt and other obligations, MCG will, as a general matter, place all or a portion of the loan on non-accrual status and cease recognizing interest income on that loan until all principal and interest has been brought current through payment or restructuring such that the interest income is deemed to be collectible. However, MCG may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. If the fair value of a loan is below cost, MCG may cease recognizing PIK interest and/or the accretion of a discount on the debt investment until such time that the fair value equals or exceeds cost.

### **Investment Policies**

MCG's investment policies provide that it will not:

act as an underwriter of securities of other issuers, except to the extent that it may be deemed an underwriter of securities (i) it purchased that must be registered under the Securities Act before they may be offered or sold to the public, or (ii) in connection with offerings of securities by its portfolio companies;

sell securities short in an uncovered position;

write or buy uncovered put or call options, except to the extent of options, warrants or conversion privileges in connection with its loans or other investments, and rights to require the issuers of such investments or their affiliates to repurchase them under certain circumstances;

engage in the purchase or sale of commodities or commodity contracts, including futures contracts, except for the purpose of hedging in the ordinary course of business or where necessary in working out distressed loan or investment situations; or

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acquire more than 3% of the voting stock of, or invest more than 5% of its total assets in any securities issued by, any other investment company, except if MCG acquires them as part of a merger, consolidation or acquisition of assets or if they result from a sale of a portfolio company, or otherwise as permitted under the 1940 Act.

All of the above policies and the investment and lending guidelines set by MCG's board of directors or any committees, including its investment objective to achieve current income and capital gains, are not fundamental as defined under the 1940 Act. Therefore, the MCG board may change them without notice to, or approval by, its stockholders.

Other than the restrictions pertaining to the issuance of senior securities under the 1940 Act, the percentage restrictions on investments generally apply on the effective date of the transaction. A subsequent change in a percentage resulting from market fluctuations or any cause other than an action by MCG will not require it to dispose of portfolio securities or to take other action to satisfy the percentage restriction.

MCG intends to conduct its business so as to retain its status as a BDC. As such, it may not acquire any assets, other than non-investment assets necessary and appropriate to its operations as a BDC, if after giving effect to such acquisition the value of its qualifying assets is less than 70% of the value of its total assets.

## **Investment Adviser**

MCG has no investment adviser and is internally managed by its executive officers under the supervision of the board of directors. MCG's investment decisions are made by its officers, directors and senior investment professionals who serve on MCG's credit and investment and valuation committees. None of MCG's executive officers or other employees have the unilateral authority to approve any investment.

## **Regulation**

### *Investment Company Act of 1940*

As a BDC, MCG is regulated under the 1940 Act. The BDC structure provides stockholders the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits, if any, of investing in primarily privately owned companies.

In part, the 1940 Act requires MCG to be organized in the United States for the purpose of investing in, or lending to, primarily private companies and making managerial assistance available to them. As a BDC MCG may use capital provided by public stockholders and from other sources to invest in long-term, private investments in businesses.

MCG may not, however, change the nature of its business so as to cease to be, or withdraw its election as, a BDC unless authorized by vote of a majority of its outstanding voting securities. The 1940 Act defines a majority of the outstanding voting securities as the lesser of:

- i. 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present or represented by proxy; or
- ii. more than 50% of the outstanding shares of such company.

Qualifying Assets

A BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) below. Thus, under the 1940 Act, MCG may not acquire any asset other than those of the type listed in Section 55(a) of the



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1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to its business are the following:

1. Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions):
  - a. is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer that:
    - i. is organized under the laws of, and has its principal place of business in, the United States;
    - ii. is not an investment company (other than a small business investment company wholly owned by MCG) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
    - iii. does not have any class of securities listed on a national securities exchange;
  - b. is a company that meets the requirements of (a)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if:
    - i. at the time of the purchase, MCG owns at least 50% of the (x) greatest number of equity securities of such issuer and securities convertible into or exchangeable for such securities; and (y) the greatest amount of debt securities of such issuer, held by MCG at any point in time during the period when such issuer was an eligible portfolio company; and
    - ii. MCG is one of the 20 largest holders of record of such issuer's outstanding voting securities; or
  - c. is a company that meets the requirements of (a)(i) and (ii) above, but is not an eligible portfolio company because it has issued a class of securities on a national securities exchange, if the aggregate market value of such company's outstanding voting and non-voting common equity is less than \$250.0 million.
2. Securities of any eligible portfolio company that MCG controls.

3. Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
  4. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and MCG already owns 60% of the outstanding equity of the eligible portfolio company.
  5. Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
  6. Cash, cash items, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.
- Control, as defined by the 1940 Act, is presumed to exist where a BDC beneficially owns more than 25% of the outstanding voting securities of the portfolio company. For the foreseeable future, MCG does not expect to add new control positions to its portfolio.

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### Significant Managerial Assistance

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above, MCG must either control the issuer of the securities or offer to make available significant managerial assistance; except that, where it purchases such securities in conjunction with one or more other persons, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, to offer to provide and, if accepted, provide significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of its operations, selective participation in board and management meetings, consulting with and advising its officers and directors or other organizational or financial guidance.

### Warrants and Options

Under the 1940 Act, MCG is subject to restrictions on the amount of warrants, options, restricted stock or rights to purchase shares of capital stock that it may have outstanding at any time. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding warrants, options or rights to purchase capital stock cannot exceed 25% of its total outstanding shares of capital stock. This amount is reduced to 20% of MCG's total outstanding shares of capital stock if the amount of warrants, options or rights issued pursuant to an executive compensation plan would exceed 15% of the total outstanding shares of capital stock. MCG has received exemptive relief from the SEC permitting MCG to issue restricted stock to its employees and directors subject to the above conditions, among others. See Exemptive and Other Relief .

### Indebtedness and Senior Securities

MCG will be permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to its common stock if its asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, MCG may not be permitted to declare any cash dividend or other distribution on its outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, it has asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. MCG may also borrow amounts up to 5% of the value of its total assets for temporary or emergency purposes.

### Capital Structure

As a BDC, MCG generally cannot issue and sell its common stock at a price below the current NAV per share. MCG may, however, sell its common stock, or warrants, options or rights to acquire its common stock, at a price below the current NAV of its common stock in a rights offering to MCG stockholders if: 1) the MCG board of directors determines that such sale is in the best interests of MCG and its stockholders; 2) MCG stockholders approve the sale of MCG Common Stock at a price that is less than the current NAV; and 3) the price at which MCG Common Stock is to be issued and sold is not less than a price that, in the determination of its board of directors, closely approximates the market value of such securities (less any sales load).

MCG may also be prohibited under the 1940 Act from participating in certain transactions with its affiliates without the prior approval of its directors who are not interested persons and, in some cases, prior approval by the SEC.

MCG does not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, MCG generally cannot acquire more than 3% of the voting stock of any registered investment company (as defined in the 1940 Act), invest more than 5% of the value of its total assets in the securities of one such investment company or invest more than 10% of the value of its total assets in the securities of such

investment companies in the aggregate.

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### **1940 Act Code of Ethics**

MCG has adopted and will maintain a code of ethics that establishes procedures for personal investments and restricts certain personal securities transactions by its officers and directors. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by MCG, so long as such investments are made in accordance with the code's requirements. MCG's *Amended and Restated Code of Ethics*, or *1940 Act Code of Ethics*, will generally not permit investments by the MCG's employees in securities that may be purchased or held by the company. MCG may be prohibited under the 1940 Act from conducting certain transactions with its affiliates without the prior approval of MCG directors who are not interested persons and, in some cases, the prior approval of the SEC.

A copy of MCG's *1940 Act Code of Ethics* is available on its website at <http://www.mcgcapital.com>. MCG is not including the information contained on its website as a part of, or incorporating it by reference into, this joint proxy statement and prospectus. In addition, you may read and copy the *1940 Act Code of Ethics* at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, the *1940 Act Code of Ethics* attached as an exhibit to its registration statement and is available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. You may also obtain copies of the *1940 Act Code of Ethics*, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

### **Proxy Voting Policies And Procedures**

MCG votes proxies relating to its portfolio securities in the best interest of MCG stockholders. MCG reviews on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by the company. Although MCG generally votes against proposals that may have a negative impact on its portfolio securities, it may vote for such a proposal if there are compelling long-term reasons to do so.

MCG's proxy voting decisions are discussed with the committee that is responsible for monitoring each of its investments. To ensure that its vote is not the product of a conflict of interest, MCG requires that: (i) anyone involved in the decision-making process disclose to MCG's General Counsel and Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision-making process or vote administration are prohibited from revealing how MCG intends to vote on a proposal in order to reduce any attempted influence from interested parties.

### **Exemptive And Other Relief**

MCG has received an exemptive order from the SEC to permit it to issue restricted shares of MCG Common Stock as part of the compensation packages for certain of its employees and directors. MCG believes that the particular characteristics of its business, the dependence it has on key personnel to conduct its business effectively and the highly competitive environment in which it operates requires the use of equity-based compensation for MCG personnel in the form of restricted stock. The issuance of restricted shares of MCG Common Stock requires the approval of MCG stockholders. In June 2006, MCG's stockholders approved its *Amended and Restated 2006 Employee Restricted Stock Plan*, or the 2006 Plan, and its *Amended and Restated 2006 Non-Employee Director Restricted Stock Plan*.

Awards under the 2006 Plan must comply with all aspects of the SEC's order, including the following:

no one person may be granted awards totaling more than 25% of the shares available;

in any fiscal year, no person may be granted awards in excess of 500,000 shares of MCG Common Stock;  
and

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the total number of shares that may be outstanding as restricted shares under all of MCG's compensation plans may not exceed 10% of the total number of its shares of common stock authorized and outstanding at any time.

MCG requested the assurance of the staff of the Division of Investment Management that it would not recommend enforcement action to the SEC under the 1940 Act or Rule 17d-1 thereunder if it engaged in a stock repurchase program and did not rescind awards of restricted stock previously awarded in compliance with the terms and conditions of the exemptive order of the SEC so long as MCG agreed not to issue additional restricted stock under any compensation plan unless such issuance, together with all restricted stock outstanding under all compensation plans, does not exceed 10% of MCG's outstanding common stock at the time of such issuance less the total number of shares previously issued, in the aggregate, pursuant to all compensatory plans. On September 27, 2013, the no-action letter was issued by the SEC.

## **Other**

MCG will be examined periodically by the SEC for compliance with the Exchange Act and the 1940 Act.

As with other companies regulated by the 1940 Act, MCG must adhere to certain substantive regulatory requirements. A majority of MCG's directors must be persons who are not interested persons, as that term is defined in the 1940 Act. MCG must provide and maintain a bond issued by a reputable fidelity insurance company to protect it against larceny and embezzlement. Furthermore, as a BDC, MCG cannot protect any director or officer against any liability to MCG stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

MCG is required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, and to review these policies and procedures annually for their adequacy and the effectiveness of their implementation. Mr. Tod K. Reichert, MCG's General Counsel and Chief Compliance Officer, is responsible for administering these policies and procedures.

## **Compliance With The Sarbanes-Oxley Act Of 2002 And The Nasdaq Global Select Market Corporate Governance Regulations**

The Sarbanes-Oxley Act imposes a wide variety of regulatory requirements on publicly held companies and their insiders. The Sarbanes-Oxley Act requires MCG to review its policies and procedures to determine whether the company comply with it and the regulations promulgated thereunder.

The NASDAQ Global Select Market has also adopted various corporate governance requirements as part of its listing standards. MCG believes it is in compliance with such corporate governance listing standards.

## **Certain U.S. Federal Income Tax Considerations**

Effective as of January 1, 2002, MCG has elected to be treated as a RIC, under Subchapter M of the Code. As a RIC, MCG generally does not have to pay corporate taxes on any income it distributes to its stockholders as dividends, which allows MCG to reduce or eliminate its corporate-level tax liability. To continue to qualify as a RIC, MCG must, among other things, meet certain source-of-income and asset diversification requirements (as defined below). In addition, to qualify for RIC tax treatment MCG must distribute to its stockholders, for each taxable year, at least 90% of its investment company taxable income, which is generally MCG's ordinary income plus the excess of its realized net short-term capital gains over its realized net long-term capital losses, collectively referred to as the 90% Distribution Requirement.

*Taxation As A Regulated Investment Company*

If MCG:

continues to qualify as a RIC, and

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distributes each year to stockholders at least 90% of its investment company taxable income, which is defined in the Code generally as ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses,

MCG will be entitled to deduct and, therefore, will not be subject to U.S. federal income tax on, the portion of its income it distributes or is deemed to distribute to stockholders. MCG will be subject to U.S. federal income tax at the regular corporate rate on any income not distributed (or deemed distributed) to MCG stockholders. MCG will be subject to a 4% nondeductible U.S. federal excise tax, or 4% excise tax, to the extent it does not make specified levels of distributions (actually or on a deemed basis) in a timely manner. MCG is subject as a RIC to the 4% excise tax to the extent that it does not distribute (on either an actual or deemed basis): 98% of its ordinary income for each calendar year; 98.2% of its capital gain net income for each calendar year; and any income realized, but not distributed, in prior calendar years.

To qualify as a RIC for federal income tax purposes, MCG must, among other things:

1. continue to qualify as a BDC under the 1940 Act at all times during each taxable year;
2. derive in each taxable year at least 90% of its gross income from (1) dividends, interest, payments with respect to certain securities, loans, gains from the sale of stock or other securities, or other income derived with respect to its business of investing in such stock or securities and (2) net income derived from an interest in a qualified publicly traded partnership; and
3. diversify its holdings so that at the end of each quarter of the taxable year:
  - a. at least 50% of the value of its assets consist of cash, cash items, U.S. government securities, securities of other RICs, and other securities, if such other securities of any one issuer do not represent more than 5% of the value of its assets or more than 10% of the outstanding voting securities of the issuer; and
  - b. no more than 25% of the value of its assets is invested in the securities, other than U.S. government securities or securities of other RICs, of (i) one issuer, (ii) two or more issuers that are controlled, as determined under applicable Code rules, by MCG and are engaged in the same or similar or related trades or businesses or (iii) one or more qualified publicly traded partnerships.

MCG may be required to recognize taxable income even when it does not receive cash. For example, if MCG holds debt obligations that are treated under applicable tax rules as having original issue discount, MCG must include in taxable income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by the company in the same taxable year. MCG also may have to include in taxable income other amounts that it has not yet received in cash, such as PIK interest and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in its investment company taxable income for the year of accrual, MCG may be required to make a cash distribution to its stockholders in the amount of that non-cash income in order to satisfy the 90% Distribution Requirement, even though the company will not have received any cash representing such income.

If MCG fails to satisfy the 90% Distribution Requirement or fails to qualify as a RIC in any taxable year, it would be subject to tax in that year on all of its taxable income at regular corporate rates, regardless of whether it makes any distributions to its stockholders. Distributions would not be required, and any distributions made in taxable years beginning on or after January 1, 2013 would be taxable to MCG stockholders as ordinary dividend income that, subject to certain limitations, may be eligible for the 15% or 20% maximum tax rate (depending on income thresholds) to the extent of MCG's current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of MCG's current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

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### **Employees**

As of March 31, 2015, MCG employed six full-time employees, including investment, portfolio and operations professionals, in-house counsel and administrative staff. All of these employees are located in MCG's corporate headquarters in Arlington, Virginia. MCG's employees are not represented by any collective bargaining unit and MCG believes that its relations with its employees are good.

### **Legal Proceedings**

From time to time, MCG is a party to certain legal proceedings incidental to the normal course of its business including the enforcement of its rights under contracts with its portfolio companies. Furthermore, third parties may try to seek to impose liability on MCG in connection with the activities of MCG's portfolio companies.

Between May 6, 2015, and May 13, 2015, a number of putative class action lawsuits were filed by stockholders of MCG challenging the Merger in the Delaware Court of Chancery. The complaints allege that MCG's directors violated their fiduciary duties by, among other things, not protecting against their supposed conflicts of interest and failing to take steps to maximize the consideration to be received by MCG's stockholders in the Merger. The complaints also allege that PFLT, Sub One and Sub Two (and, in some instances, MCG and the PFLT Investment Adviser) have aided and abetted the MCG directors' purported breach of fiduciary duties. The complaints demand, among other things, a preliminary and permanent injunction against the Merger and rescission of the transaction to the extent that it has been implemented. MCG believes that the lawsuits are without merit and intends to defend them vigorously. For a discussion of litigation regarding the merger, see [The Merger - Litigation Relating to the Merger](#)

While the outcome of any of the open legal proceedings described above cannot at this time be predicted with certainty, MCG does not expect these matters will affect its financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on MCG's financial conditions or results of operations in any future reporting period or delay or prevent the Merger from becoming effective with the agreed upon timeframe or at all.

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

**Overview**

MCG is a solutions-focused commercial finance company that provides capital and advisory services to lower middle-market companies throughout the United States. Generally, MCG's portfolio companies use its capital investment to finance acquisitions, recapitalizations, buyouts, organic growth, working capital and other general corporate purposes.

MCG is an internally managed, non-diversified, closed-end investment company that has elected to be regulated as a BDC under 1940 Act. As a BDC, MCG must meet various regulatory tests, which include investing at least 70% of its total assets in private or thinly traded public U.S.-based companies and limitations on its ability to incur indebtedness unless immediately after such borrowing it has an asset coverage for total borrowings of at least 200% (i.e., the amount of debt generally may not exceed 50% of the value of its assets).

In addition, MCG has elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. In order to continue to qualify as a RIC for federal income tax purposes and obtain favorable RIC tax treatment, MCG must meet certain requirements, including certain minimum distribution requirements. If MCG satisfies these requirements, it generally will not have to pay corporate-level taxes on any income MCG distributes to its stockholders as distributions, allowing the company to substantially reduce or eliminate its corporate-level tax liability. From time to time, MCG's wholly owned subsidiaries may execute transactions that trigger corporate-level tax liabilities. In such cases, MCG recognizes a tax provision in the period when it becomes more likely than not that the taxable event will occur.

On April 28, 2015, MCG entered into a definitive merger agreement with PFLT, Sub One, Sub Two and PFLT Investment Adviser. Pursuant to the Merger Agreement, Sub One will merge with and into MCG, with MCG as the surviving company and a wholly owned subsidiary of PFLT and, immediately thereafter and as a single integrated transaction, MCG will merge with and into Sub Two, with Sub Two as the surviving company. In the Merger, MCG stockholders will have the right to receive a number of shares of PFLT Common Stock equal to \$4.521 for each share of MCG Common Stock held immediately prior to the Initial Merger (including shares of restricted MCG Common Stock which will vest upon the effective time), as well as \$0.226 in cash consideration (subject to upward adjustment based on the market price of PFLT Common Stock).

The transaction has been approved by the boards of directors of MCG and PFLT. Completion of the transaction is subject to customary closing conditions, including the approval of MCG and PFLT's stockholders. See [Description of the Merger Agreement](#) and the rest of this joint proxy statement and prospectus for more details.

**Portfolio and Investment Activity**

As of March 31, 2015, the fair value of MCG's investment portfolio was \$50.1 million, which represents a \$25.2 million, or 33.4%, decrease from the \$75.3 million fair value as of December 31, 2014. The following sections describe the composition of MCG's investment portfolio as of March 31, 2015 and key changes in its portfolio during the three months ended March 31, 2015.



**Table of Contents****Portfolio Composition**

The following table summarizes the composition of MCG's investment portfolio *at fair value*:

<i>(dollars in thousands)</i>	March 31, 2015		December 31, 2014	
	Investments at Fair Value	Percent of Total Portfolio	Investments at Fair Value	Percent of Total Portfolio
<b>Debt investments</b>				
Senior secured debt	\$ 40,908	81.6%	\$ 40,562	53.8%
Subordinated secured debt	8,991	17.9	22,460	29.8
<b>Total debt investments</b>	<b>49,899</b>	<b>99.5</b>	63,022	83.6
<b>Equity investments</b>				
Preferred equity			12,044	16.0
Common/common equivalents equity	235	0.5	266	0.4
<b>Total equity investments</b>	<b>235</b>	<b>0.5</b>	12,310	16.4
<b>Total investments</b>	<b>\$ 50,134</b>	<b>100.0%</b>	\$ 75,332	100.0%

MCG's debt instruments bear contractual interest rates ranging from 4.3% to 14.5%, a portion of which may be in the form of PIK. As of March 31, 2015, approximately 82.0% of the fair value of MCG's loan portfolio had variable interest rates, based on either the LIBOR or the prime rate, and 18.0% of the fair value of MCG's loan portfolio had fixed interest rates. As of March 31, 2015, approximately 62.9% of MCG's loan portfolio, at fair value, had LIBOR floors of 2.0% on a LIBOR-based index or prime floors between 2.0% and 3.3%. At origination, MCG's loans generally have four- to six-year stated maturities. Borrowers typically pay an origination fee based on a percentage of the total commitment and a fee on undrawn commitments.

The following table summarizes MCG's investment portfolio by industry *at fair value*:

<i>(dollars in thousands)</i>	March 31, 2015		December 31, 2014	
	Investments at Fair Value	Percent of Total Portfolio	Investments at Fair Value	Percent of Total Portfolio
Healthcare	\$ 26,491	52.8%	\$ 44,566	59.2%
Business services	14,182	28.3	14,172	18.8
Broadcasting	9,226	18.4	9,198	12.2
Other <sup>(a)</sup>	235	0.5	7,396	9.8
<b>Total</b>	<b>\$ 50,134</b>	<b>100.0%</b>	\$ 75,332	100.0%

(a) No individual industry within this category exceeds 1%.

During the three months ended March 31, 2015, MCG had concentrations in certain industries, including the healthcare, business services and broadcasting industries. The following table summarizes MCG's fair value and revenue concentrations in each of those industries:

<i>(dollars in thousands)</i>	Investments at fair value				Revenue for the three months ended			
	March 31, 2015		December 31, 2014		March 31, 2015		March 31, 2014	
	Amount	% of Total Portfolio	Amount	% of Total Portfolio	Amount	% of Total Revenue	Amount	% of Total Revenue
<b>Industry</b>								
Healthcare	\$ 26,491	52.8%	\$ 44,566	59.2%	\$ 1,101	56.3%	\$ 2,131	22.8%
Business services	14,182	28.3	14,173	18.8	350	17.9	1,715	18.4
Broadcasting	9,226	18.4	9,198	12.2	126	6.4	164	1.8
<b>Total</b>	<b>\$ 49,899</b>	<b>99.5</b>	<b>\$ 67,937</b>	<b>90.2</b>	<b>\$ 1,577</b>	<b>80.6</b>	<b>\$ 4,010</b>	<b>43.0</b>

**Table of Contents****Changes in Investment Portfolio**

The following table summarizes MCG's total portfolio investment activity during the three months ended March 31, 2015 and 2014:

<i>(in thousands)</i>	<b>Three months ended March 31</b>	
	<b>2015</b>	<b>2014</b>
Beginning investment portfolio	<b>\$ 75,332</b>	\$ 368,873
Originations and advances	<b>384</b>	6,706
Gross payments, reductions and sales of securities	<b>(27,377)</b>	(26,426)
Net realized gain (loss)	<b>271</b>	(4,488)
Unrealized depreciation	<b>(7)</b>	(23,173)
Reversals of unrealized depreciation	<b>1,320</b>	4,524
Origination fees and amortization of unearned income	<b>211</b>	282
<b>Ending investment portfolio</b>	<b>\$ 50,134</b>	\$ 326,298

***Originations and Advances***

The following table shows MCG's originations and advances during the three months ended March 31, 2015 and 2014 by security type:

<i>(dollars in thousands)</i>	<b>Three months ended March 31,</b>			
	<b>2015</b>		<b>2014</b>	
	<b>Amount</b>	<b>% of Total</b>	<b>Amount</b>	<b>% of Total</b>
<b>Debt investments</b>				
Senior secured debt	<b>\$ 305</b>	<b>79.4%</b>	\$ 4,880	72.8%
Subordinated debt				
Secured	<b>79</b>	<b>20.6</b>	1,283	19.1
Unsecured			282	4.2
<b>Total debt investments</b>	<b>384</b>	<b>100.0</b>	6,445	96.1
<b>Equity investments</b>				
Preferred equity			261	3.9
<b>Total equity investments</b>			261	3.9
<b>Total originations and advances</b>	<b>\$ 384</b>	<b>100.0%</b>	\$ 6,706	100.0%

Additionally, in connection with the sale of RadioPharmacy, MCG amended and restated its existing senior secured debt and provided first lien financing consisting of a \$17.5 million term loan and a \$1.0 million revolver at an interest rate of 8.5% due in December 2017.





**Table of Contents*****Repayments, Sales and Other Reductions of Investment Portfolio***

The following table shows MCG's gross payments, reductions and sales of securities during the three months ended March 31, 2015 and 2014 by security type:

<i>(dollars in thousands)</i>	Three months ended March 31,			
	2015		2014	
	Amount	% of Total	Amount	% of Total
<b>Debt investments</b>				
Senior secured debt	\$ 135	0.5%	\$ 2,335	8.8%
Subordinated secured debt	13,841	50.6	19,560	74.0
<b>Total debt investments</b>	<b>13,976</b>	<b>51.1</b>	<b>21,895</b>	<b>82.8</b>
<b>Equity investments</b>				
Preferred equity	13,401	48.9	4,531	17.2
<b>Total equity investments</b>	<b>13,401</b>	<b>48.9</b>	<b>4,531</b>	<b>17.2</b>
Total gross payments, reductions and sales of securities	\$ 27,377	100.0%	\$ 26,426	100.0%

During the three months ended March 31, 2015 and 2014, MCG's gross payments, reductions and sales of securities by transaction type included:

<i>(in thousands)</i>	Three months ended March 31,	
	2015	2014
Principal repayments, reductions and loan sales	\$ 13,500	\$ 17,500
Sale of equity investments	7,000	4,348
Scheduled principal amortization	235	2,335
Collection of accrued paid-in-kind interest and dividends	6,642	2,243
<b>Total gross payments, reductions and sales of securities</b>	<b>\$ 27,377</b>	<b>\$ 26,426</b>

As shown in the following table, during the three months ended March 31, 2015, MCG monetized 3 portfolio investments with proceeds totaling \$27.1 million:

<i>(in thousands)</i>	Three months ended March 31, 2015			Total
	Principal Repayments and Proceeds	Sale or Settlement of Equity	PIK Interest and Dividend	

	<b>from Loan Sales</b>	<b>Investments</b>	<b>Prepayments</b>	
<b>Monetizations</b>				
RadioPharmacy Investors, LLC	\$	\$ 7,000	\$ 6,401	\$ 13,401
Industrial Safety Technologies, LLC	7,000		241	7,241
Intrafusion Holdings, Inc.	6,500			6,500
<b>Total monetizations</b>	<b>13,500</b>	<b>7,000</b>	<b>6,642</b>	<b>27,142</b>
Other scheduled payments	235			235
<b>Total gross payments, sales and other reductions of investment portfolio</b>	<b>\$ 13,735</b>	<b>\$ 7,000</b>	<b>\$ 6,642</b>	<b>\$ 27,377</b>

The proceeds from these monetizations correlated closely with the most recently reported fair value of the associated investments.

**Table of Contents****Asset Quality**

Asset quality is generally a function of portfolio company performance and economic conditions, as well as MCG's underwriting and ongoing management of its investment portfolio. In addition to various risk management and monitoring tools, MCG uses the following investment rating system to characterize and monitor its expected level of returns on each investment in MCG's portfolio:

**Investment**

<b>Rating</b>	<b>Summary Description</b>
<b>1</b>	Capital gain expected or realized
<b>2</b>	Full return of principal and interest or dividend expected with customer performing in accordance with plan
<b>3</b>	Full return of principal and interest or dividend expected, but customer requires closer monitoring
<b>4</b>	Some loss of interest or dividend expected, but still expect an overall positive internal rate of return on the investment
<b>5</b>	Loss of interest or dividend and some loss of principal investment expected, which would result in an overall negative internal rate of return on the investment

The following table shows the distribution of MCG's investments on its 1 to 5 investment rating scale *at fair value* as of March 31, 2015 and December 31, 2014:

(dollars in thousands)

<b>Investment Rating</b>	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
	<b>Investments at Fair Value</b>	<b>% of Total Portfolio</b>	<b>Investments at Fair Value</b>	<b>% of Total Portfolio</b>
1	\$	%	\$	%
2			22,460	29.8
3	49,899	99.5	40,562	53.8
4			12,044	16.0
5	235	0.5	266	0.4
<b>Total</b>	<b>\$ 50,134</b>	<b>100.0%</b>	<b>\$ 75,332</b>	<b>100.0%</b>

When one of MCG's loans becomes more than 90 days past due, or if it otherwise does not expect the customer to be able to service its debt and other obligations, MCG will, as a general matter, place all or a portion of the loan on non-accrual status and will cease recognizing interest income on that loan until all principal and interest have been brought current through payment or a restructuring such that the interest income is deemed to be collectible. However, the company may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. If the fair value of a loan is below cost, MCG may cease recognizing PIK interest and/or the accretion of a discount on the debt investment until such time that the fair value equals or exceeds cost.

As of each of March 31, 2015 and December 31, 2014, MCG's portfolio contained no loans that were more than 90 days past due or on non-accrual status.



**Table of Contents****RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three months ended March 31, 2015 and 2014.

***Comparison Of The Three Months Ended March 31, 2015 and 2014***

The following table summarizes the components of MCG's net income for the three months ended March 31, 2015 and 2014:

<i>(dollars in thousands)</i>	<b>Three months ended</b>		<b>Variance</b>	
	<b>2015</b>	<b>2014</b>	<b>\$</b>	<b>Percentage</b>
<b>Revenue</b>				
Interest and dividend income				
Interest income	<b>\$ 1,507</b>	\$ 8,752	\$ (7,245)	(82.8)%
Dividend income		151	(151)	(100.0)
Loan fees	<b>213</b>	352	(139)	(39.5)
Total interest and dividend income	<b>1,720</b>	9,255	(7,535)	(81.4)
Advisory fees and other income	<b>234</b>	91	143	157.1
<b>Total revenue</b>	<b>1,954</b>	9,346	(7,392)	